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# Checklists and illustrative financial statements for corporations : a financial accounting and reporting practice aid, December 2003 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Lori West

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*December 2003 Edition*

# **CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS**

***A Financial Accounting and  
Reporting Practice Aid***

Prepared By  
**Lori West, CPA**

Technical Manager,  
Accounting and Auditing Publications

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**AICPA**



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*Checklists and Illustrative Financial Statements  
for Corporations* has not been approved,  
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**AICPA**

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# FSP Section 6000

## *Checklists and Illustrative Financial Statements for Corporations*

### Instructions

#### General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of financial statements and by practitioners who audit, review or compile them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited financial statements.
- **Accountants' Compilation and Review Report Checklist**—For use by accountants in reporting on compiled or reviewed financial statements of nonpublic business enterprises.
- **Basic Financial Statement Formats**—Illustrating formats commonly used to present financial statements.
- **Illustrative Financial Statements**—Illustrating a full set of financial statements.

.02 These checklists and illustrative materials have been developed by the AICPA Accounting and Auditing Publications Staff to serve as nonauthoritative practice aids for use by preparers and auditors of financial statements. The auditor's report checklist addresses those requirements most likely to be encountered when reporting on financial statements of a commercial enterprise prepared in conformity with generally accepted accounting principles (GAAP). It does not include reporting requirements relating to other matters such as internal control, agreed-upon procedures, etc. The financial statement and notes checklist includes disclosures that should be considered by commercial corporations in preparing financial statements in conformity with generally accepted accounting principles. The checklist does not include disclosures that are applicable only to entities in specific industries (such as insurance enterprises, not-for-profit organizations, etc.); nor does it include disclosures prescribed by pronouncements whose applicability to commercial corporations is considered to be remote.

.03 Users of the financial statements and notes checklist should remember that it is a disclosure checklist only and not a comprehensive GAAP application or measurement checklist. Accordingly, application and measurement issues related to preparing financial statements in conformity with GAAP are not included in the checklist.



The financial statements and notes checklist has been updated to include relevant disclosure guidance in accounting pronouncements issued through December 31, 2003. Those pronouncements include:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 150, *Instruments With Characteristics of Both Liabilities and Equity*, and revised Statements issued through December 2003
- FASB Interpretation (FASBI) No. 46 (revised December 2003), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*
- FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Emerging Issues Task Force (EITF) consensus adopted through the November 2003 meeting
- AICPA Statement on Auditing Standards (SAS) No. 101, *Auditing Fair Value Measurements and Disclosures*
- AICPA Statement of Position (SOP) 03-2, *Attest Engagements on Greenhouse Gas Emissions Information*
- AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*
- AICPA Statement on Standards for Accounting and Review Services (SSARS) No. 9, *Omnibus Statement on Standards for Accounting and Review Services—2002*

The checklists and illustrative financial statements should be modified, as appropriate, for pronouncements issued subsequent to the above. In determining the applicability of a pronouncement, its effective date should also be considered.

.04 These checklists contain numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
TB =	Technical Bulletin issued by the staff of the FASB
SOP =	AICPA Statement of Position
EITF =	FASB Emerging Issues Task Force Consensus
FSP =	FASB Staff Position
PB =	AICPA Practice Bulletin
AIN =	AICPA Accounting Interpretation
FASCON =	FASB Statement of Financial Accounting Concepts
SAS =	AICPA Statement on Auditing Standards
SSARS =	AICPA Statement on Standards for Accounting and Review Services

## Instructions

.05 These checklists consist of a number of questions or statements that are accompanied by references to applicable authoritative pronouncements. The checklists provide spaces for checking off or initialing each question or point to indicate that it has been considered. Users should check or initial—

- **Yes**—If the disclosure is required and has been made appropriately.
- **No**—If the disclosure is required but is not made.
- **N/A (Not Applicable)**—If the disclosure is not required to be made.

Users may find it helpful to include references to the place where each disclosure for which a “Yes” is indicated can be found in the financial statements. It may also be helpful to include either on the checklist or elsewhere the reasons that items marked “N/A” do not apply in the circumstances of the particular report.

.06 It is important that the effect of any “No” response be considered on the auditor’s report. A “No” response that is material to the financial statements may warrant the issuance of a qualified or adverse report on the financial statements. (See paragraphs 35–60 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.35–.60]. If a “No” response is indicated, the authors recommend that a notation be made in the margin to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements) or to indicate the effect that the response will have on the auditor’s report.

.07 The financial statements and notes checklist is organized into six discrete sections. Disclosures listed in the *General, Balance Sheet, Income Statement, Statement of Cash Flows*, and *Summary of Significant Accounting Policies* sections are common to most commercial corporations. Those listed in the *Other Financial Statement Disclosures* section are required only when circumstances dictate. Carefully review the topics listed and consider whether they represent potential disclosure items for the reporting entity for which you are preparing or auditing financial statements. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked “N/A” or left blank.

.08 The use of these or any other checklists requires the exercise of individual professional judgment. These checklists are not substitutes for original authoritative pronouncements. Users of these checklists and illustrative materials are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative materials may not include all disclosures and presentation items promulgated, nor do they represent minimum standards or requirements. Users of the checklists and illustrative materials are encouraged to tailor them as required to meet specific circumstances of each particular engagement.

.09 These checklists and illustrative materials have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

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**Note:** This publication was extracted from sections 6000 through 6500 of the AICPA *Financial Statement Preparation Manual* (FSP).



# FSP Section 6100

## *Financial Statements and Notes Checklist*

*Place ✓ by  
Sections Applicable*

- General
  - A. Titles and References \_\_\_\_\_
  - B. Comparative Financial Statements \_\_\_\_\_
  - C. Consolidated Financial Statements \_\_\_\_\_
  - D. Nature of Operations \_\_\_\_\_
- Balance Sheet
  - A. General \_\_\_\_\_
  - B. Cash \_\_\_\_\_
  - C. Certain Investments in Debt and Equity Securities \_\_\_\_\_
  - D. Receivables \_\_\_\_\_
  - E. Inventories \_\_\_\_\_
  - F. Investments Accounted for by the Equity Method \_\_\_\_\_
  - G. Property and Equipment \_\_\_\_\_
  - H. Deferred Income Tax Assets and Liabilities \_\_\_\_\_
  - I. Other Assets and Deferred Charges \_\_\_\_\_
  - J. Intangible Assets and Goodwill \_\_\_\_\_
  - J1. Transitional Disclosures for Goodwill and Other Intangible Assets \_\_\_\_\_
  - K. Current Liabilities \_\_\_\_\_
  - L. Notes Payable and Other Debt \_\_\_\_\_
  - M. Shareholders' Equity \_\_\_\_\_
  - N. Changes in Shareholders' Equity \_\_\_\_\_
- Income Statement
  - A. Revenue and Expenses \_\_\_\_\_
  - B. Income Taxes \_\_\_\_\_
  - C. Extraordinary Items \_\_\_\_\_
  - D. Earnings Per Share \_\_\_\_\_
  - E. Comprehensive Income \_\_\_\_\_
- Statement of Cash Flows
- Summary of Significant Accounting Policies
  - A. Accounting Policies \_\_\_\_\_
  - B. Certain Significant Estimates \_\_\_\_\_
- Other Financial Statement Disclosures
  - A. Business Combinations \_\_\_\_\_
  - B. Changes in Accounting \_\_\_\_\_
  - C. Commitments and Contingencies \_\_\_\_\_
  - D. Current Vulnerability Due to Certain Concentrations \_\_\_\_\_
  - E. Employee Stock Ownership Plans \_\_\_\_\_
  - F. Employers' Disclosures About Pensions and Other Postretirement Benefits \_\_\_\_\_
  - G. Environmental Remediation Liabilities \_\_\_\_\_

	<i>Place ✓ by Sections Applicable</i>
H. Extinguishments of Debt	_____
I. Financial Instruments	_____
J. Guarantees	_____
K. Foreign Currency Translation	_____
L. Long-Lived Assets and Disposal Groups to Be Disposed Of	_____
M. Impaired Loans	_____
N. Impairment of Long-Lived Assets to Be Held and Used	_____
O. Leases—Lessors	_____
P. Leases—Lessees	_____
Q. Nonmonetary Transactions	_____
R. Postemployment Benefits	_____
S. Related-Party Transactions and Economic Dependency	_____
T. Research and Development Arrangements	_____
U. Exit or Disposal Activities	_____
V. Segment Information	_____
W. Stock Compensation Plans	_____
X. Subsequent Events	_____
Y. Transfers and Servicing of Financial Assets and Securitizations	_____
Z. Troubled Debt Restructurings—Creditors	_____
AA. Troubled Debt Restructurings—Debtors	_____
BB. Asset Retirement Obligations	_____
	<u>Yes</u> <u>No</u> <u>N/A</u>

## General

### A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:
  - a. Balance sheet? \_\_\_\_\_
  - b. Statement of income (operations)? \_\_\_\_\_
  - c. Statement of retained earnings or changes in shareholders' equity? \_\_\_\_\_
  - d. Statement of cash flows? \_\_\_\_\_
  - e. Description of accounting policies? \_\_\_\_\_
  - f. Notes to the financial statements?  
[Generally Accepted] \_\_\_\_\_
2. Is each financial statement suitably titled?  
[Generally Accepted] \_\_\_\_\_
3. Does each statement include a reference to the notes, which are an integral part of the financial statements?  
[Generally Accepted] \_\_\_\_\_

### B. Comparative Financial Statements

1. If comparative statements are presented, are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance?  
[ARB 43, Ch. 2A, par. 2 (AC F43.102)] \_\_\_\_\_



- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 2. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?<br>[ARB 43, Ch. 2A, par. 3 (AC F43.103)] | _____      | _____     | _____      |

**C. Consolidated Financial Statements**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. If consolidated statements are presented, is the consolidation policy disclosed?<br>[ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]   | _____ | _____ | _____ |
| 2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated?<br>[SFAS 94, par. 13 (AC C51.103)]                            | _____ | _____ | _____ |
| 3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed?<br>[ARB 51, par. 4 (AC C51.107)] | _____ | _____ | _____ |

***Consolidation of Variable Interest Entities***


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**Important:** FASBI 46 (revised December 2003), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, contains different effective dates based on the nature of the entity applying its provisions. Also, FASBI 46(R) contains scope exceptions that should be considered in determining whether its provisions apply to a particular entity. Financial statement preparers and auditors should familiarize themselves with the effective date guidance and scope exceptions contained in FASBI 46(R), which can be obtained on the FASB Web site at [www.fasb.org](http://www.fasb.org). Note that FASBI 46(R) replaces the original FASBI 46 that was issued in January 2003.

---

- |   |       |       |       |
|---|-------|-------|-------|
| 4. Does the primary beneficiary of a variable interest entity disclose the following (unless the primary beneficiary also holds a majority voting interest):  |       |       |       |
| a. The nature, purpose, size, and activities of the variable interest entity?   | _____ | _____ | _____ |
| b. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity's obligations?  | _____ | _____ | _____ |
| c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary?<br>[FASBI 46(R), par. 23] | _____ | _____ | _____ |
| 5. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose:   |       |       |       |
| a. The nature of its involvement with the variable interest entity and when that involvement began?   | _____ | _____ | _____ |
| b. The nature, purpose, size, and activities of the variable interest entity?   | _____ | _____ | _____ |
| c. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity?<br>[FASBI 46(R), par. 24]  | _____ | _____ | _____ |
| 6. Are disclosures required by SFAS 140 about a variable interest entity included in the same note to the financial statements as the information required by FASBI 46(R)?<br>[FASBI 46(R), par. 25]      | _____ | _____ | _____ |

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 7. If an entity does not apply FASBI 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of FASBI 46(R), is the following information disclosed:   |            |           |            |
| a. The number of entities to which this Interpretation is not being applied and the reason why the information required to apply this Interpretation is not available?  | _____      | _____     | _____      |
| b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise's involvement with the entity(ies)?   | _____      | _____     | _____      |
| c. The reporting enterprise's maximum exposure to loss because of its involvement with the entity(ies)?   | _____      | _____     | _____      |
| d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented? (However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.)<br>[FASBI 46(R), par. 26] | _____      | _____     | _____      |
| 8. If it is reasonably possible that an enterprise will initially consolidate or disclose information about a variable interest entity when FASBI 46(R) becomes effective, does the enterprise disclose the following information in all financial statements issued after December 31, 2003, regardless of the date on which the variable interest entity was created:   |            |           |            |
| a. The nature, purpose, size, and activities of the variable interest entities?   | _____      | _____     | _____      |
| b. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity?<br>[FASBI 46(R), par. 27]  | _____      | _____     | _____      |

#### D. Nature of Operations

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is a description of the major products and services the reporting entity sells or provides and the principal markets, including the location of those markets, disclosed?<br>[SOP 94-6, par. 10]   | _____ | _____ | _____ |
| 2. If the reporting entity operates in more than one business, is the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed?<br>[SOP 94-6, par. 10] | _____ | _____ | _____ |

### Balance Sheet

The following table summarizes the titles used to describe the statement of assets, liabilities, and equity in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

#### BALANCE SHEET TITLE

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Balance Sheet	574	573	571	569	569
Statement of Financial Position	24	25	27	28	27
Statement of Financial Condition	2	2	2	3	4
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>A. General</b>			
1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities? [ARB 43, Ch. 3A, pars. 2–8 (AC B05.103–.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501–.503)]	_____	_____	_____
2. Are assets not expected to be realized during the current operating cycle classified as noncurrent? [ARB 43, Ch. 3A, pars. 5 and 6 (AC B05.106 and .107)]	_____	_____	_____
<b>B. Cash</b>			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
2. Are restrictions on cash properly disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
3. Are bank overdrafts reclassified to and presented separately in current liabilities? [Generally Accepted]	_____	_____	_____
4. Are held checks (those written before but not released until after the balance sheet date) reclassified to accounts payable? [Generally Accepted]	_____	_____	_____
<b>C. Certain Investments in Debt and Equity Securities</b>			
1. If an enterprise presents a classified statement of financial position, are all individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities reported as either current or noncurrent, as appropriate, under the provisions of ARB 43, Chapter 3A, <i>Working Capital—Current Assets and Current Liabilities</i> ? [SFAS 115, par. 17 (AC I80.116)]	_____	_____	_____

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**Practice Tip**

Presentation of individual amounts for trading securities, held-to-maturity securities, and available-for-sale securities on the face of the balance sheet is not required as long as the information is provided in the notes to the financial statements.

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2. For securities classified as available-for-sale, has the reporting entity made the following disclosures by major security type as of each date for which a statement of financial position is presented:			
a. Aggregate fair value?	_____	_____	_____
b. Total gains for securities with net gains in accumulated other comprehensive income?	_____	_____	_____
c. Total losses for securities with net losses in accumulated other comprehensive income? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For securities classified as held-to-maturity, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrecognized holding gains or losses?	_____	_____	_____
c. Net carrying amount?	_____	_____	_____
d. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
4. For investments in debt securities classified as available-for-sale or held-to-maturity:			
a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
5. For each period for which an income statement is presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses that have been included in earnings as a result of those sales?	_____	_____	_____
b. The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined (i.e., specified identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The amount of the net unrealized holding gain or loss on available-for-sale securities for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period?	_____	_____	_____
e. The portion of trading gains and losses for the period that relates to trading securities still held at the reporting date? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
6. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:			
a. Net carrying amount of the sold or transferred security?	_____	_____	_____
b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security?	_____	_____	_____
c. Related realized or unrealized gain or loss?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	_____	_____	_____
7. Certain quantitative and qualitative disclosures are required for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS 115 and SFAS 124 that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. For those investments with unrealized losses that have not been recognized as other-than-temporary impairments, does the investor disclose:			
a. Quantitative information, aggregated by each category of investment that the investor discloses in accordance with SFAS 115 and SFAS 124, in tabular form:			
(1) The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value)? and	_____	_____	_____
(2) The aggregate related fair value of investments with unrealized losses?	_____	_____	_____

**Notes:** The disclosures in (1) and (2) above should be segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous loss position for 12 months or longer.

The reference point for determining how long an investment has been in an unrealized loss position is the balance sheet date of the reporting period in which the continuing impairment was first identified. For enterprises that do not prepare quarterly information, the reference point would be the annual balance sheet date of the period during which the impairment was identified, unless the investment experienced a market price recovery between balance sheet dates. In that case, the balance sheet date of the period in which the security again became impaired shall be the reference point.

b. Additional information, in a narrative form, that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that the investor considered (both positive and negative) in reaching the conclusion that the impairments are not other than temporary, whose disclosure could include:			
(1) The nature of the investment(s)?	_____	_____	_____
(2) The cause(s) of the impairment(s)?	_____	_____	_____
(3) The number of investment positions that are in an unrealized loss position?	_____	_____	_____
(4) The severity and duration of the impairment(s)?	_____	_____	_____
(5) Other evidence considered by the investor in reaching its conclusion that the investment(s) is not other than temporarily impaired, including, for example, industry analyst reports, sector credit ratings, volatility of the security's market price, and/or any other information that the investor considers relevant? [EITF 03-1]	_____	_____	_____

**D. Receivables**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are accounts and notes receivable from officers, employees, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]   | _____ | _____ | _____ |
| 2. Are unbilled receivables (e.g., unbilled costs and fees under cost-plus-fixed-fee contracts) shown separately from billed receivables? [ARB 43, Ch. 11A, par. 4]  | _____ | _____ | _____ |
| 3. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]  | _____ | _____ | _____ |
| 4. Are unearned discounts (other than cash or quantity discounts and the like), finance charges, and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.105)] | _____ | _____ | _____ |
| 5. If a note is noninterest bearing or has an inappropriate stated interest rate:  |       |       |       |
| a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?  | _____ | _____ | _____ |
| b. Does the disclosure include the effective interest rate and face amount of the note?  | _____ | _____ | _____ |
| c. Is amortization of discount or premium reported as interest in the income statement?  | _____ | _____ | _____ |
| d. Are issue costs reported on the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]   | _____ | _____ | _____ |

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**Note:** SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend or Finance the Activities of Others*, is effective for fiscal years beginning after December 15, 2001. Questions 6–15 below apply to entities that lend to or finance the activities of others (including trade receivables). Refer to paragraphs 3–6 of SOP 01-6 to determine whether your entity falls within the scope of the SOP. This checklist includes only the disclosure requirements for the more common activities within the scope of SOP 01-6. If the entity is a financial institution, or purchases or sells loans or servicing rights, forecloses on a loan, or engages in other more complex lending activities, SOP 01-6 contains more disclosure requirements. Practitioners should consider those additional disclosure and presentation requirements of SOP 01-6, which are not included herein.

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- |  |       |       |       |
|--|-------|-------|-------|
| 6. Does the accounting policy note include the following:  |       |       |       |
| a. The basis of accounting for loans, trade receivables, and lease financings, including those classified as held for sale?  | _____ | _____ | _____ |
| b. The method used in determining the lower of cost or fair value of nonmortgage loans held for sale (that is aggregate or individual asset basis)?  | _____ | _____ | _____ |
| c. The method for recognizing interest income on loan and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs? | _____ | _____ | _____ |



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The classification and method of accounting for interest-only strips, loans, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment?	_____	_____	_____
e. A description of the accounting policies and methodology the entity used to estimate its allowance for loan losses, allowance for doubtful accounts, and any liability for off-balance sheet credit losses, and related charges for loan, trade receivable or other credit losses, including a description of the factors that influenced management's judgment?	_____	_____	_____
f. The policy for placing loans (and trade receivables if applicable) on nonaccrual status (or discontinuing accrual of interest) and recording payments received on nonaccrual loans (and trade receivables if applicable), and the policy for resuming accrual of interest?	_____	_____	_____
g. The policy for charging off uncollectible loans and trade receivables?	_____	_____	_____
h. The policy for determining past due or delinquency status (that is, whether past due status is based on how recently payments have been received or contractual terms)? [SOP 01-6, par. 13a–c]	_____	_____	_____
7. Is the aggregate amount of gains or losses on sales of loans or trade receivables (including adjustments to record loans held for sale at the lower of cost or fair value) presented separately in the financial statements or disclosed in the notes to the financial statements? [SOP 01-6, par. 13d]	_____	_____	_____
8. Loans or trade receivables may be presented on the balance sheet as aggregated amounts. However,			
a. Are loans or trade receivables held for sale presented on the balance sheet in a separate category?	_____	_____	_____
b. Are major categories of loans or trade receivables presented separately either in the balance sheet or in the notes to the financial statements?	_____	_____	_____
c. Are the allowance for credit losses, the allowance for doubtful accounts, and, as applicable, any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, disclosed in the financial statements? [SOP 01-6, par. 13e]	_____	_____	_____
9. Are foreclosed and repossessed assets classified as a separate balance-sheet amount or included in other assets on the balance sheet with separate disclosures in the notes to the financial statements? [SOP 01-6, par. 13f]	_____	_____	_____
10. Are certain returned or repossessed assets, such as inventory, subsequently to be utilized by the entity in operations, not classified separately? [SOP 01-6, par. 13f]	_____	_____	_____
11. Is the recorded investment in loans (and trade receivables if applicable) on nonaccrual status as of each balance sheet date disclosed in the notes to the financial statements? [SOP 01-6, par. 13g]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. Is the recorded investment in loans (and trade receivables if applicable) past due ninety days or more and still accruing disclosed? [SOP 01-6, par. 13g]	_____	_____	_____
13. Insurance subsidiaries may be required to deposit securities with state regulatory authorities. If so, is the carrying amount of securities deposited disclosed? [SOP 01-6, par. 13h]	_____	_____	_____
14. Is the carrying amount of loans, trade receivables, securities and financial instruments that serve as collateral for borrowings disclosed pursuant to paragraphs 18 and 19 of SFAS 5, <i>Accounting for Contingencies</i> ? [SOP 01-6, par. 13i]	_____	_____	_____

**E. Inventories**

1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [Generally Accepted]	_____	_____	_____
2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]	_____	_____	_____
3. Is the basis for stating inventory disclosed (e.g., lower of cost or market)? [ARB 43, Ch. 4, par. 14 (AC I78.120); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
5. Are the net losses on firm purchase commitments for goods for inventory disclosed in the income statement? [ARB 43, Ch. 4, par. 17 (AC I78.121 and .122)]	_____	_____	_____

**Practice Tip**

Disclosures required of entities using LIFO of annual income, profit, or loss of any inventory basis other than LIFO may be made only in the notes to the financial statements or in a supplementary schedule and should be excluded from the face of the financial statements. (See IRS Regulation 1.472-2(e) for details of LIFO conformity disclosure requirements.)

**F. Investments Accounted for by the Equity Method**

1. Are investments in common stock shown in the balance sheet of the investor as a single amount, and is the investor's share of earnings or losses of the investee shown in the income statement as a single amount (except for extraordinary items or prior period adjustments)? [APB 18, par. 19 (AC I82.109c)]	_____	_____	_____
2. Are the following disclosures made for investments in common stock accounted for by the equity method:			
a. The name of each investee and their percentage of ownership of common stock?	_____	_____	_____
b. The accounting policies of the investor with respect to investments in common stock?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets?	_____	_____	_____
d. The accounting treatment of the difference described in c?	_____	_____	_____
e. For investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)	_____	_____	_____
f. For investments in common stock, corporate joint ventures, or other investments which are in the aggregate material in relation to the financial position or results of operations of an investor, summarized information as to assets, liabilities, and results of operation of the investees as appropriate?	_____	_____	_____
g. Material effects of conversions of outstanding convertible securities, exercises or contingent issuances? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is not considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110 fn. 14)]	_____	_____	_____
4. If the reporting entity holds less than 20 percent of the voting stock of a significant investee corporation and accounts for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110 fn. 14)]	_____	_____	_____

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### Practice Tip

The significance of an investment to the investor's financial position and results of operations should be considered in evaluating the extent of disclosures relating to the financial position and results of operations of an investee.

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### G. Property and Equipment

1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>H. Deferred Income Tax Assets and Liabilities</b>			
1. Are deferred tax assets and liabilities classified as current or noncurrent based on the classification of the related asset or liability? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
2. Are deferred tax assets not related to an asset or liability, including those related to carryforwards, classified according to the expected reversal date of the temporary difference pursuant to SFAS 37? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
3. For each particular tax-paying component of the reporting entity and within each particular tax jurisdiction:			
a. Are all current deferred tax liabilities and assets offset and presented as a single amount?	_____	_____	_____
b. Are all noncurrent deferred tax liabilities and assets offset and presented as a single amount? [SFAS 109, par. 42 (AC I27.141)]	_____	_____	_____
4. Is the valuation allowance for each particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that jurisdiction on a pro rata basis? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
5. Are the components of the net deferred tax liability or asset recognized in the balance sheet disclosed as follows:			
a. The total of all deferred tax liabilities (measured as described in paragraph 17b of SFAS 109)?	_____	_____	_____
b. The total of all deferred tax assets (measured as described in paragraph 17c and d of SFAS 109)?	_____	_____	_____
c. The total valuation allowance recognized for deferred tax assets (measured as described in paragraph 17e of SFAS 109)? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
6. Is the net change during the year in the valuation allowance disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
7. If the reporting entity is a <b>public enterprise</b> :			
a. Is the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed?	_____	_____	_____
b. If the reporting entity is not subject to income taxes because its income is taxed directly to its owners, is that fact and the net difference between the tax bases and reported amounts of the enterprises' assets and liabilities disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
8. If the reporting entity is a <b>nonpublic enterprise</b> , are the types of temporary differences and carryforwards that give rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____



Yes    No    N/A

### Practice Tip

SFAS 109 requires that deferred taxes be determined separately for each tax-paying component in each tax jurisdiction (for example, federal, state, or local). A component may be an individual entity or a group of entities that is consolidated for tax purposes. A valuation allowance for deferred tax assets in a particular tax jurisdiction should be allocated between current and noncurrent assets for that jurisdiction on a pro rata basis.

#### I. Other Assets and Deferred Charges

1. For computer software to be sold, leased, or otherwise marketed, are the following disclosed:
  - a. The amount of unamortized computer software costs included in each balance sheet presented?  
[SFAS 86, par. 11a (AC Co2.110a)]
  - b. The amount charged to expense for amortization of these costs and for amounts written down to net realizable value disclosed in each income statement presented?  
[SFAS 86, par. 11b (AC Co2.110b)]
  - c. The amount of research and development expense incurred for computer software to be sold, leased, or otherwise marketed charged to expense in each period for which an income statement is presented?  
[SFAS 86, par. 12 (AC Co2.111)]
2. Is a payment by an S Corporation to the IRS to retain its fiscal year for tax purposes classified as an asset (deposit)?  
[EITF 88-4]

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

#### J. Intangible Assets and Goodwill

1. At a minimum, are all intangible assets aggregated and presented as a separate line item in the statement of financial position? (This requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.)  
[SFAS 142, par. 42 (AC G40.141)]
2. Are amortization expense and impairment losses for intangible assets presented in income statement line items within continuing operations as deemed appropriate for each entity?  
[SFAS 142, par. 42 (AC G40.141)]
3. Is the aggregate amount of goodwill presented as a separate line item in the statement of financial position?  
[SFAS 142, par. 43 (AC G40.142)]
4. Is the aggregate amount of goodwill impairment losses presented as a separate line item in the income statement before the subtotal *income from continuing operations* (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation?  
[SFAS 142, par. 43 (AC G40.142)]
5. Is a goodwill impairment loss associated with a discontinued operation included (on a net-of-tax basis) within the results of discontinued operations?  
[SFAS 142, par. 43 (AC G40.142)]
6. For intangible assets acquired either individually or with a group of assets, is the following information disclosed in the notes to the financial statements in the period of acquisition?

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. For intangible assets subject to amortization:			
(1) The total amount assigned and the amount assigned to any major intangible asset class?	_____	_____	_____
(2) The amount of any significant residual value, in total and by major intangible asset class?	_____	_____	_____
(3) The weighted-average amortization period, in total and by major intangible asset class?	_____	_____	_____
b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class	_____	_____	_____
c. The amount of research and development assets acquired and written off in the period and the line item in the income statement in which the amounts written off are aggregated. [SFAS 142, par. 44 (AC G40.143)]	_____	_____	_____
7. Has the following information been disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented:			
a. For intangible assets subject to amortization:			
(1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class?	_____	_____	_____
(2) The aggregate amortization expense for the period?	_____	_____	_____
(3) The estimated aggregate amortization expense for each of the five succeeding fiscal years?	_____	_____	_____
b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class	_____	_____	_____
c. The changes in the carrying amount of goodwill during the period including:			
(1) The aggregate amount of goodwill acquired?	_____	_____	_____
(2) The aggregate amount of impairment losses recognized?	_____	_____	_____
(3) The amount of goodwill included in the gain or loss on disposal of all or a portion of a reporting unit?	_____	_____	_____
8. If the entity reports segment information in accordance with SFAS 131, is the above information about goodwill provided in total and for each reportable segment and are any significant changes in the allocation of goodwill by reportable segment disclosed? [SFAS 142, par. 45 (AC G40.144)]	_____	_____	_____
9. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, is that unallocated amount and the reasons for not allocating that amount disclosed? [SFAS 142, par. 45 (AC G40.144)]	_____	_____	_____
10. For each impairment loss recognized related to an intangible asset, is the following information disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:			
a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The amount of the impairment loss and the method for determining fair value?	_____	_____	_____
c. The caption in the income statement in which the impairment loss is aggregated?	_____	_____	_____
d. If applicable, the segment in which the impaired intangible asset is reported under SFAS 131? [SFAS 142, par. 46 (AC G40.145)]	_____	_____	_____
11. For each goodwill impairment loss recognized, is the following information disclosed in the notes to the financial statement that include the period in which the impairment loss is recognized:			
a. A description of the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses, a present value or other valuation technique, or a combination thereof)?	_____	_____	_____
c. If a recognized impairment loss is an estimate that has not yet been finalized (refer to SFAS 142, par. 22), that fact and the reasons therefor and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss? [SFAS 142, par. 47 (AC G40.146-.148)]	_____	_____	_____

#### J1. Transitional Disclosures for Goodwill and Other Intangible Assets

**Note:** Readers should refer to paragraphs 48–61 of SFAS 142 for effective date and transition guidance related to SFAS 142.

1. Upon completion of the first step of the transitional goodwill impairment test, is the reportable segment or segments in which an impairment loss might have to be recognized and the period in which that potential loss will be measured disclosed in any interim financial information? [SFAS 142, par. 60]	_____	_____	_____
2. In the period of initial application and thereafter until goodwill and all other intangible assets have been accounted for in accordance with SFAS 142 in all periods presented, is the following information displayed either on the face of the income statement or in the notes to the financial statements:			
a. Income before extraordinary items and net income for all periods presented adjusted to exclude amortization expense (including any related tax effects) recognized in these periods related to goodwill?	_____	_____	_____
b. Intangible assets that are no longer being amortized?	_____	_____	_____
c. Any deferred credit related to an excess over cost (amortized in accordance with APB 16)?	_____	_____	_____
d. Equity method goodwill? [SFAS 142, par. 61]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does the adjusted income before extraordinary items and net income also reflect any adjustments for changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying SFAS 142 (including any related tax effects)? [SFAS 142 par. 61]	_____	_____	_____
4. Is a reconciliation of reported net income to the adjusted net income disclosed? [SFAS 142, par. 61]	_____	_____	_____
5. Are adjusted earnings per share amounts for all periods presented in either the face of the income statement or in the notes? [SFAS 142, par. 61]	_____	_____	_____

### K. Current Liabilities

#### Practice Tip

Section B05 of the FASB *Current Text* contains a detailed discussion of the nature of items that should be included in the current liabilities caption when a classified balance sheet is presented.

1. Are significant categories of current liabilities, such as accounts payable, accrued expenses, deferred revenue, interest payable, and amounts due to officers and employees segregated and presented separately? [Generally Accepted]	_____	_____	_____
2. If a classified balance sheet is presented, is a total for current liabilities shown? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
3. Are short term obligations expected to be refinanced reclassified to long term liabilities? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
4. If the reporting entity has not accrued compensated absences (SFAS 43) because the amount cannot be reasonably estimated, is that fact disclosed? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
5. Are borrowings outstanding under revolving credit agreements that include both a subjective acceleration clause and a requirement to maintain a lock-box arrangement, whereby remittances from the borrower's customers reduce the debt outstanding, classified as short-term obligations? [EITF 95-22]	_____	_____	_____

### L. Notes Payable and Other Debt

1. Are major categories of debt (notes payable to banks, mortgages payable, notes to related parties) identified on the balance sheet or in the notes to the financial statements? [Generally Accepted]	_____	_____	_____
2. Are interest rates, maturities, conversion features, and other significant terms (for example, subordinated features) of long term debt disclosed? [Generally Accepted]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral, covenants to reduce debt, maintain working capital, and restrict dividends disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
4. Are the following disclosed for each of the five years following the latest balance sheet presented:			
a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria set forth in SFAS 47 and that have been recognized in the purchaser's balance sheet?	_____	_____	_____
b. The combined aggregate amount of maturities and sinking fund requirements for all long term borrowings? [SFAS 47, par. 7 (AC C32.105)]	_____	_____	_____
5. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a direct deduction from or addition to the face amount of the note?	_____	_____	_____
b. Is the effective interest rate disclosed?	_____	_____	_____
c. Is the face amount of the note disclosed?	_____	_____	_____
d. Is amortization of the discount or premium reported as interest in the income statement?	_____	_____	_____
e. Are issue costs reported as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
6. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109)]	_____	_____	_____
7. If short-term obligations have been excluded from current liabilities pursuant to SFAS 6, do disclosures include:			
a. A general description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued, or expected to be issued, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
8. Are long-term obligations that are or will be callable by the creditor, either because the debtor's violation of the debt agreement at the balance-sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, reclassified to current unless one of the following conditions is met:			
a. The creditor has waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date?	_____	_____	_____
b. The obligation contains a grace period within which the debtor may cure the violation, and it is probable that the violation will be cured within that period, thus preventing the violation from becoming callable? [SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
9. If an obligation under Question 8 above is included in long-term liabilities (or in the case of an unclassified balance sheet is included as a long-term liability in the disclosure of debt maturities), are the circumstances disclosed? [SFAS 78, par. 5 (AC B05.118); see also EITF 86-30]	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 10. If the reporting entity has borrowed funds in the form of participating mortgage loans, are the following disclosed in the financial statements:   |            |           |            |
| a. The aggregate amount of participating mortgage obligations at the balance-sheet date, with separate disclosure of the aggregate participation liabilities and related debt discounts?   | _____      | _____     | _____      |
| b. Terms of the participations by the lender in either the appreciation in the market value of the mortgaged real estate project or the results of operations of the mortgaged real estate project, or both? [SOP 97-1]  | _____      | _____     | _____      |
| 11. For insurance-related assessments:   |            |           |            |
| a. If amounts relating to insurance-related assessments have been discounted pursuant to the provisions of SOP 97-3, <i>Accounting by Insurance and Other Enterprises for Insurance-Related Assessments</i> , has the entity disclosed in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used? | _____      | _____     | _____      |
| b. If amounts have not been discounted, has the entity disclosed in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized? [SOP 97-3, par. 27]                        | _____      | _____     | _____      |

### M. Shareholders' Equity

The following table summarizes the titles used to describe the equity section in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

#### TITLE OF EQUITY SECTION

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Shareholders' Equity	299	292	286	284	271
Stockholders' Equity	222	226	229	238	244
Shareowners' Equity	20	21	25	25	26
Common Stockholders' Equity	5	5	6	8	9
Shareholders' Investment	9	14	12	12	12
Common Shareholders' Equity	6	6	7	7	12
Term Deficit or Deficiency in Title	30	22	N/C*	N/C*	N/C*
Other or no title	9	14	35	26	26
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

\* N/C = Not Compiled. Line item was not included in table for year shown.

- |   |       |       |       |
|---|-------|-------|-------|
| 1. For each class of stock, do disclosures include the number of shares authorized, issued, and outstanding, and par or stated value per share?<br>[Generally Accepted] | _____ | _____ | _____ |
|---|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are classes of capital stock presented in order of priority in liquidation? [Generally Accepted]	_____	_____	_____
3. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]	_____	_____	_____
4. Do disclosures include the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented? [SFAS 129, par. 5 (AC C24.103)]	_____	_____	_____
5. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liquidation preference disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short," rather than on a per share basis or in the notes to the financial statements? [SFAS 129, par. 6 (AC C24.104)]	_____	_____	_____
6. Are the following disclosed on the face of the balance sheet or in the notes:			
a. The aggregate or per-share amounts at which preferred stock may be called or are subject to redemption through sinking-fund operations or otherwise?	_____	_____	_____
b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends? [SFAS 129, par. 7 (AC C24.105)]	_____	_____	_____
7. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or redeemable dates in each of the five years following the date of the latest balance sheet? [SFAS 129, par. 8 (AC C24.106)]	_____	_____	_____
8. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
9. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
10. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____
11. Are the carrying basis, cost and number of shares of any treasury stock held by the reporting entity disclosed? [Generally Accepted]	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 12. If treasury stock is purchased for purposes other than retirement or if ultimate disposition has not yet been decided is its cost:   |            |           |            |
| a. Shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings, or  | _____      | _____     | _____      |
| b. Accorded the accounting treatment appropriate for retired stock?<br>[APB 6, par. 12b (AC C23.103)]  | _____      | _____     | _____      |
| 13. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made?<br>[APB 6, par. 13 (C23.104)] | _____      | _____     | _____      |

The following table summarizes the presentations of treasury stock in the balance sheets of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

#### **TREASURY STOCK—BALANCE SHEET PRESENTATION**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>Common Stock</b>					
Cost of treasury stock shown as stockholders' equity deduction	365	362	372	370	355
Par or stated value of treasury stock deducted from issued stock of the same class	16	19	23	13	23
Cost of treasury stock deducted from stock of the same class	14	10	12	14	12
Other	1	6	3	4	2
<b>Total Presentations</b>	<b>396</b>	<b>397</b>	<b>410</b>	<b>401</b>	<b>392</b>
<b>Preferred Stock</b>					
Cost of treasury stock shown as stockholders' equity deduction	1	2	3	2	2
Par or stated value of treasury stock deducted from issued stock of the same class	2	1	1	3	1
Other	2	2	2	3	1
<b>Total Presentations</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>8</b>	<b>4</b>
<b>Number of Companies</b>					
Disclosing treasury stock	397	396	410	400	392
Not disclosing treasury stock	203	204	190	200	208
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

- |   |       |       |       |
|---|-------|-------|-------|
| 14. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), exceeds unrecognized prior-service cost, is the excess (which would represent a net loss not yet recognized as net periodic pension cost) reported in other comprehensive income, net of any tax benefits that result from considering such losses as temporary differences, for purposes of applying the provisions of SFAS 87, paragraph 37 (AC I27) and SFAS 109, paragraph 287?<br>[SFAS 87, par. 37 (AC P16.131)] | _____ | _____ | _____ |
|---|-------|-------|-------|

Yes    No    N/A

## N. Changes in Shareholders' Equity

The following table summarizes the method used to present changes in retained earnings in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

### PRESENTATION OF CHANGES IN RETAINED EARNINGS

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Statement of stockholders' equity	581	578	577	534	562
Separate statement of retained earnings	9	9	7	41	15
Combined statement of income and retained earnings	3	6	10	8	7
Schedule in notes	7	7	6	17	16
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

1. Are changes in the separate accounts of shareholders' equity disclosed?

[APB 12, par. 10 (AC C08.102)]

\_\_\_\_\_

2. Are changes in the number of shares of equity securities disclosed?

[APB 12, par. 10 (AC C08.102)]

\_\_\_\_\_

3. If prior-period adjustments have been recorded during the current year, are their resulting effects (both gross and net of applicable income taxes and including the amounts of income tax applicable to the prior period adjustments) appropriately disclosed?

\_\_\_\_\_

- a. For single-period statements, does the disclosure indicate the effects of such restatement on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period?

\_\_\_\_\_

- b. If financial statements of more than one period are presented, does disclosure include the effects for each of the periods presented in the statements?

\_\_\_\_\_

[APB 9, par. 26 (AC A35.107)]

### Practice Tip

Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure would ordinarily not be required.

4. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include:

- a. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year?

\_\_\_\_\_

- b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated?

\_\_\_\_\_

[SFAS 16, par. 15 (AC A35.111)]

5. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter, disposals of segments of a business, extraordinary, unusual,



- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year end adjustments that are material to the results of that quarter disclosed in a note to the financial statements? [APB 28, par. 31 (AC I73.147)]   | _____      | _____     | _____      |
| 6. If the reporting entity is a publicly traded company, is disclosure about the effect of accounting changes on interim periods that are required by paragraphs 23–26 of APB 28 or by paragraphs 9–13 of SFAS 3 included in a note to the financial statements for the fiscal year in which the change is made? [SFAS 3, par. 14 (AC I73.147)] | _____      | _____     | _____      |

## Income Statement

The following table summarizes the titles used to describe the income statement in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

### INCOME STATEMENT TITLE

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Income	242	259	284	296	298
Operations	250	230	198	186	180
Earnings	98	102	108	114	117
Other	10	9	10	4	5
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

### A. Revenue and Expenses

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are the important components of income, such as sales or other sources of revenue, cost of sales, selling and administrative expenses, interest expense and income taxes, separately disclosed on the face of the income statement?<br>[Generally Accepted] | _____ | _____ | _____ |
| 2. Is the following information concerning interest costs disclosed:   |       |       |       |
| a. For accounting periods in which no interest is capitalized, the amount of interest cost incurred and charged to expense during the period?  | _____ | _____ | _____ |
| b. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized?<br>[SFAS 34, par. 21 (AC I67.118)]                                      | _____ | _____ | _____ |
| 3. Are interest costs associated with product financing arrangements identified separately?<br>[SFAS 49, par. 9 (AC D18.107)]  | _____ | _____ | _____ |
| 4. Are research and development costs charged to expense when incurred and appropriately disclosed?<br>[SFAS 2, pars. 12 and 13 (AC R50.108 and .109)]   | _____ | _____ | _____ |
| 5. Do the disclosures for advertising costs include:   |       |       |       |
| a. The accounting policy for reporting advertising including whether such costs are expensed as incurred or the first time the advertising takes place?  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. A description of direct-response-advertising reported as assets (if any), the related accounting policy, and the amortization method and period?	_____	_____	_____
c. The amount charged to advertising expense for each statement of income presented, with separate disclosure of amounts, if any, representing a write-down of capitalized advertising costs to net realizable value?	_____	_____	_____
d. The amount of advertising reported as assets in each balance sheet presented? [SOP 93-7, par. 49]	_____	_____	_____
6. Is the amount of revenue and expense recognized from advertising barter transactions disclosed for each income statement period presented? [EITF 99-17]	_____	_____	_____
7. If the entity engages in advertising barter transactions for which the fair value is not determinable within the limits of EITF 99-17, is information regarding the volume and type of advertising surrendered and received (such as the number of equivalent pages, the number of minutes, or the overall percentage of advertising volume) disclosed for each income statement period presented? [EITF 99-17]	_____	_____	_____
8. At a minimum, is the following information disclosed in the notes to the financial statements in all periods affected by the September 11, 2001 attacks:			
a. A description of the nature and amounts of losses and costs recognized as a result of the September 11 events and the amount of related insurance recoveries (if any) recognized?	_____	_____	_____
b. A description of contingencies resulting from the September 11 events that have not yet been recognized in the financial statements but that are reasonably expected to impact the entity's financial statements in the near term?	_____	_____	_____
c. Applicable disclosures pursuant to SOP 94-6?	_____	_____	_____
d. Applicable disclosures about environmental obligations (and recoveries) pursuant to SOP 96-1? [EITF 01-10]	_____	_____	_____
9. Are losses and costs incurred as a result of the September 11, 2001 attacks classified as part of income from continuing operations? [EITF 01-10]	_____	_____	_____
10. If the losses and costs incurred as a result of the September 11, 2001 attacks meet the criteria for disclosure of unusual or infrequently occurring items, are they reported as a separate component of income from continuing operations, either on the face of the statement of operations or in the notes to the financial statements? [EITF 01-10]	_____	_____	_____
11. Is the following information disclosed in the notes to the financial statements in the period(s) in which business interruption insurance recoveries are recognized:			
a. The nature of the event resulting in business interruption losses?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. The aggregate amount of business interruption insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts reported as an extraordinary item pursuant to APB 30)? [EITF 01-13]</p>	_____	_____	_____
<p>12. If shipping and handling costs for a seller of goods are significant and are not included in cost of sales (that is, if those costs are accounted for together or separately on other income statement line items), does the company disclose both the amount(s) of such costs and the line item(s) on the income statement that include them? [EITF 00-10]</p>	_____	_____	_____
<p>13. Does a vendor disclose the following in regard to revenue arrangements with multiple deliverables:</p> <p>a. Its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting)?</p>	_____	_____	_____
<p>b. The description and nature of such arrangements, including performance, cancellation, termination, or refund-type provisions? [EITF 00-21]</p>	_____	_____	_____
<p>14. Is the income statement classification of the expense associated with a "free" product or service delivered at the time of sale of another product or service classified as cost of sales? [EITF 01-9]</p>	_____	_____	_____
<b>B. Income Taxes</b>			
<p>1. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:</p> <p>a. Current tax expense or benefit?</p>	_____	_____	_____
<p>b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?</p>	_____	_____	_____
<p>c. Investment tax credits?</p>	_____	_____	_____
<p>d. Government grants (to the extent recognized as a reduction of income tax expense)?</p>	_____	_____	_____
<p>e. The benefits of operating loss carryforwards?</p>	_____	_____	_____
<p>f. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?</p>	_____	_____	_____
<p>g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the reporting entity?</p>	_____	_____	_____
<p>h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years? [SFAS 109, par. 45a-h (AC I27.144a-h)]</p>	_____	_____	_____
<p>2. Are the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to discontinued</p>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
operations, extraordinary items, items charged directly to shareholders' equity, and prior period adjustments disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____
3. If the reporting entity is a <b>public enterprise</b> , is there a reconciliation in both percentages and dollar amounts of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
4. If the reporting entity is a <b>nonpublic enterprise</b> , is there disclosure of the nature of significant items required to reconcile the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
6. Is the amount of any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated (1) to reduce goodwill or other noncurrent intangible assets of an acquired entity or (2) directly to contributed capital disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
7. If the reporting entity is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:			
a. The aggregate amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented? [SFAS 109, par. 49a and b (AC I27.148a and b)]	_____	_____	_____
8. If the reporting entity is an S corporation, partnership, or proprietorship, is the reason that no income tax expense is recorded disclosed? [Generally Accepted]	_____	_____	_____
<b>C. Extraordinary Items</b>			
1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is the caption <i>extraordinary items</i> used to identify separately the effects of events and transactions, other than disposals of components of an entity, that meet the criteria for classification as extraordinary as discussed in APB 30 (AC I17.106–.111)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
3. Are descriptive captions and amounts presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Are the nature of each extraordinary event or transaction and the principle items entering into the determination of extraordinary gains or losses described? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. Are income taxes applicable to any extraordinary items disclosed on the face of the income statement (preferable) or disclosed in the notes to the financial statements? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
6. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore <b>not</b> meeting the criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
7. If any extraordinary items that were reported in prior periods are adjusted during the current period, are the adjustments separately disclosed as to year of origin, nature, and amount and classified separately on the current period as an extraordinary item? [SFAS 16, par. 16(c) (AC I17.119)]	_____	_____	_____

#### D. Earnings Per Share

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**Note:** SFAS 128, *Earnings per Share*, applies only to entities with publicly held common stock or potential common stock.

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1. If the reporting entity has a simple capital structure (only common stock outstanding), are basic per-share amounts for income from continuing operations and for net income presented on the face of the income statement for all periods for which an income statement or summary of earnings is presented? [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]	_____	_____	_____
2. If the reporting entity has other than a simple capital structure, are basic and diluted per-share amounts for income from continuing operations and for net income presented on the face of the income statement with equal prominence for all periods for which an income statement or summary of earnings is presented? ( <b>Note:</b> If diluted EPS data are reported for at least one period, they should be reported for all periods presented, even if they are the same amounts as basic EPS.) [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If discontinued operations, extraordinary items, or the cumulative effect of accounting changes are reported in the period, are the basic and diluted per share amounts for those line items presented on the face of the income statement or in the notes? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
4. If per share amounts not required to be presented by SFAS 128 are disclosed, are they disclosed only in the notes and do the disclosures indicate whether the per share amounts are pretax or net of tax? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
5. Are the following disclosed for each period for which an income statement is presented:			
a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations?	_____	_____	_____
b. The effect that has been given to preferred dividends in arriving at income available to common shareholders' in computing basic EPS?	_____	_____	_____
c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented? [SFAS 128, par. 40 (AC E11.135)]	_____	_____	_____
6. For the latest period for which an income statement is presented, do disclosures include a description of any transaction that occurs after the end of the most recent period but before issuance of the financial statements that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period? [SFAS 128, par. 41 (AC E11.136)]	_____	_____	_____

### E. Comprehensive Income

#### Practice Tip

A listing of items of other comprehensive income under current accounting standards can be found in section C49.106 of the FASB *Current Text*.

1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
2. Is a total amount for comprehensive income displayed in the financial statement where the components of other comprehensive income are reported? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
3. Is an amount for net income displayed and included as a component of comprehensive income? [SFAS 130, pars. 15 and 22 (AC C49.109 and .116)]	_____	_____	_____
4. Are items included in other comprehensive income classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities? [SFAS 130, par. 17 (AC C49.111)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are reclassification adjustments made to avoid double counting in comprehensive income of items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or other periods presented on the face of the financial statement in which comprehensive income is reported or disclosed in the notes? [SFAS 130, par. 20 (AC C49.114)]	_____	_____	_____
6. Are comprehensive income and its components displayed in a financial statement that is displayed with the same prominence as the other financial statements? ( <i>Note:</i> SFAS 130 encourages but does not require that the components of other comprehensive income and total comprehensive income be displayed below the total for net income in a statement that reports results of operations or in a separate statement of comprehensive income that begins with net income.) [SFAS 130, pars. 22 and 23 (AC C49.116 and .117)]	_____	_____	_____
7. Are the components of other comprehensive income displayed either net of related tax effects, or before related tax effects with one amount shown for the aggregate tax effect related to the total of other comprehensive income items? [SFAS 130, par. 24 (AC C49.118)]	_____	_____	_____
8. Is the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments) displayed on the face of the statement in which those components are displayed or disclosed in the notes to the financial statements? [SFAS 130, par. 25 (AC C49.119)]	_____	_____	_____
9. Is the total of other comprehensive income for a period transferred to a component of equity that is displayed separately from retained earnings and additional paid-in-capital in the balance sheet with a descriptive title such as <i>accumulated other comprehensive income</i> ? [SFAS 130, par. 26 (AC C49.120)]	_____	_____	_____
10. Are accumulated balances for each classification within accumulated other comprehensive income disclosed on the face of the balance sheet, in the statement of changes in shareholders' equity, or in the notes? [SFAS 130, par. 26 (AC C49.120)]	_____	_____	_____
11. Has the enterprise reported a total for comprehensive income in condensed financial statements of interim periods? [SFAS 130, par. 27 (AC C49.121)]	_____	_____	_____
12. Has the entity displayed as a separate classification within other comprehensive income the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 30 and 41 of SFAS 133? [SFAS 133, par. 46 (AC D50)]	_____	_____	_____
13. As part of the disclosures of accumulated other comprehensive income, pursuant to paragraph 26 of SFAS 130, <i>Reporting Comprehensive Income</i> , has the entity separately disclosed the beginning and ending accumulated derivative gain or loss, the related net change associated with current period hedging transactions, and the net amount of any reclassification into earnings? [SFAS 133, par. 47 (AC D50)]	_____	_____	_____



Yes    No    N/A

## Statement of Cash Flows

1. Does the statement of cash flows report net cash provided or used by the operating, investing, and financing activities and the effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [SFAS 95, par. 26 (AC C25.124)]
2. Is the accounting policy for determining which items are treated as cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]

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The following table summarizes the methods used to report cash flows from operating activities in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

### METHOD OF REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Indirect method	593	592	593	593	593
Direct method	7	8	7	7	7
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

3. If the direct method of reporting net cash flow from operating activities is used, do cash flows from operating activities separately report:
  - a. Cash received from customers?
  - b. Interest and dividends received?
  - c. Other operating cash receipts?
  - d. Cash paid to employees and suppliers?
  - e. Interest paid?
  - f. Income taxes and other payments to government?
  - g. Other operating cash payments (if any)? [SFAS 95, par. 27 (AC C25.125)]

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### Practice Tip

SFAS 95 encourages reporting entities to use the direct method of reporting cash flows. The sample financial statements in section 6400 illustrate a statement of cash flows prepared using the direct method.

4. If the direct method is used, is a separate reconciling schedule provided to reconcile net income to net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)]
5. If the direct method of reporting net cash flow from operating activities is not used, is the net cash flow from operating activities reported indirectly by adjusting net income to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28 (AC C25.126)]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Is the reconciliation of net income to net cash flow from operating activities, including separate reporting of all major classes of reconciling items, presented? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
7. If the indirect method of reporting net cash flow from operating activities is used, are amounts of interest paid (net of amounts capitalized) and income taxes paid during the period provided in related disclosures? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
8. Are investing and financing activities that affect recognized assets or liabilities, but that do not result in cash receipts or cash payments in the period, disclosed? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
9. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from collections or sales of loans?	_____	_____	_____
b. Receipts from sales of property, plant, and equipment?	_____	_____	_____
c. Loans to others?	_____	_____	_____
d. Payments to acquire property, plant, and equipment?	_____	_____	_____
e. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account?	_____	_____	_____
f. Payments to acquire equity instruments of other enterprises, exclusive of those carried in the trading account? [SFAS 95, pars. 16 and 17 (AC C25.114 and .115)]	_____	_____	_____
10. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing debt?	_____	_____	_____
b. Issuance of equity instruments?	_____	_____	_____
c. Payment of dividends?	_____	_____	_____
d. Repayments for amounts borrowed?	_____	_____	_____
e. Purchases of treasury stock?	_____	_____	_____
f. Other principal payments to creditors who have extended long-term debt?	_____	_____	_____
g. Proceeds received from derivative instruments and distributions to counterparties of derivative instruments that include financing elements at inception? [SFAS 95, pars. 19 and 20, as amended by SFAS 149 (AC C25.117 and .118); EITF 95-13]	_____	_____	_____
11. Is cash payment made to settle an asset retirement obligation classified in the statement of cash flows as an operating activity? [EITF 02-6]	_____	_____	_____
12. Except for certain items whose turnover is quick, amounts are large, and maturities are short, are cash receipts and cash payments from investing and financing activities shown separately on the statement of cash flows? [SFAS 95, pars. 12, 13, and 31 (AC C25.110, .111, and .129)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
13. If the indirect method is used, is the reduction of income taxes paid as a result of a deduction triggered by employee exercise of stock options classified as an operating cash flow? [EITF 00-15]	_____	_____	_____
14. If a material income tax benefit realized as a result of the deduction triggered by employee exercise of stock options is not presented as a separate line item in the statement of cash flows or in the statement of changes in stockholders' equity, is disclosure made of the material income tax benefit realized? [EITF 00-15]	_____	_____	_____
15. If an other-than-insignificant financing element is present at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments (that is, the forward points in an at-the-money forward contract), does the borrower report all cash inflows and outflows associated with that derivative instrument in a manner consistent with financing activities as described in paragraphs 18–20 of SFAS 95? [SFAS 133, par. 45A, as amended by SFAS 149, par. 18 (AC D50.142A)]	_____	_____	_____

## Summary of Significant Accounting Policies

### Practice Tip

As you evaluate the completeness of the significant accounting policies, consider whether additions or revisions are required in response to recently issued accounting pronouncements. Also consider whether disclosures of accounting policies covered in other sections of this checklist are included. For example:

- Inventories
- Investments accounted for by the equity method
- Property and equipment
- Business combinations
- Advertising costs
- Statement of cash flows
- Employee stock ownership plans
- Futures contracts
- Environmental remediation liabilities
- Impaired loans
- Stock compensation plans

If the accounting policy disclosures called for in sections such as these are not included in notes elsewhere in the financial statements, they should be included in the summary of accounting policies.

### A. Accounting Policies

1. Is a description of all significant accounting policies of the reporting entity presented as either a separate summary preceding the notes to the financial statements or as the initial note? [APB 22, par. 15 (AC A10.108)]	_____	_____	_____
2. Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Do those principles and methods identified in question 2 include all instances in which there:			
a. Is a selection from existing acceptable alternatives?	_____	_____	_____
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	_____	_____	_____
c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11]	_____	_____	_____
5. Is the company's accounting policy with respect to vendor's sales incentive arrangements disclosed? [EITF 03-10]	_____	_____	_____

The following table lists accounting policies that were most frequently included in the summary of accounting policies of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

#### DISCLOSURE OF ACCOUNTING POLICIES

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Consolidation policy	576	587	581	583	578
Depreciation methods	567	584	581	587	587
Use of estimates	576	577	576	574	568
Inventory pricing	522	523	538	542	543
Property	556	543	552	537	521
Cash equivalents	537	543	518	516	503
Earnings per share calculation	386	383	407	405	413
Amortization of intangibles	509	495	481	479	448
Inter-period tax allocation	449	418	404	377	359
Translation of foreign currency	420	407	398	386	366
Financial instruments	487	450	423	428	406
Stock-based compensation	483	335	318	289	281
Employee benefits	167	133	164	124	101
Nature of operations	361	329	313	312	267
Research and development costs	206	186	180	179	173
Fiscal years	181	175	178	171	157
Environmental costs	133	131	139	140	136
Advertising costs	250	227	197	174	151
Credit risk concentrations	178	167	173	147	124
Capitalization of interest	89	87	89	76	81
Revenue recognition	584	574	555	486	N/C*
Impairment	540	533	428	426	N/C*

\* N/C = Not Compiled. Line item was not included in table for year shown.

Yes      No      N/A

## B. Certain Significant Estimates

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:
  - a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?
  - b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?
  - c. Does the disclosure describe the factors that cause the estimate to be sensitive to change?  
[SOP 94-6, pars. 13 and 14]

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## Other Financial Statement Disclosures

### Practice Tip

Information relating to several relatively minor acquisitions may be combined for disclosure.

## A. Business Combinations

1. Do the notes to the financial statements of a combined entity disclose the following information in the period in which a material business combination is completed:
  - a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?
  - b. The primary reasons for the acquisition, including a description of the factors that contributed to a purchase price that results in recognition of goodwill?
  - c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?
  - d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?
  - e. A condensed balance sheet disclosing the amount assigned to each major asset and liability caption of the acquired entity at the acquisition date?
  - f. Contingent payments, options, or commitments specified in the acquisition agreement and the accounting treatment that will be followed should any such contingency occur?
  - g. The amount of purchased research and development assets acquired and written off in the period (refer to paragraph 42 of SFAS 141) and the line item in the income statement in which the amounts written off are aggregated?

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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h. For any purchase price allocation that has not been finalized, that fact and the reasons therefore?	_____	_____	_____
i. In subsequent periods, the nature and amount of any material adjustment made to the initial allocation of the purchase price? [SFAS 141, par. 51 (AC B51.164)]	_____	_____	_____
2. Is the following information disclosed in the notes to the financial statements in the period in which a material business combination is completed if the amounts assigned to goodwill or to other intangible assets acquired are significant in relation to the total cost of the acquired entity:			
a. For intangible assets subject to amortization:			
(1) The total amount assigned and the amount assigned to a major intangible asset class?	_____	_____	_____
(2) The amount of any significant residual value, in total and by major intangible asset class?	_____	_____	_____
(3) The weighted-average amortization period, in total and by major intangible asset class?	_____	_____	_____
b. For intangible assets <i>not</i> subject to amortization the total amount assigned and the amount assigned to any major intangible asset class?	_____	_____	_____
c. For goodwill:			
(1) The total amount of goodwill and the amount that is expected to be deductible for tax purposes?	_____	_____	_____
(2) The amount of goodwill by reportable segment (if the combined entity is required to disclose segment information in accordance with SFAS 131), unless not practicable. [SFAS 141, par. 52 (AC B51.165)]	_____	_____	_____
3. If a series of individually immaterial business combinations completed during the period are material in the aggregate, is the following disclosed:			
a. The number of entities acquired and a brief description of those entities?	_____	_____	_____
b. The aggregate cost of the acquired entities, the number of equity interests, (such as common shares, preferred shares, or partnership interests) issued or issuable, and the value assigned to those interests?	_____	_____	_____
c. The aggregate amount of any contingent payments, options, or commitments and the accounting treatment that will be followed should any contingency occur (if potentially significant in relation to the aggregate cost of the acquired entities)?	_____	_____	_____
d. The information described in Question 2 above, if the aggregate amount assigned to goodwill or to other intangible assets acquired is significant in relation to the aggregate cost of the acquired entities? [SFAS 141, par. 53 (AC B51.166)]	_____	_____	_____
4. If the combined entity is a public business enterprises, is the following supplemental information on a pro forma basis for the period in which a material business combinations occurs (or for the period in which a series of individually immaterial business combinations occur that are material in the aggregate) disclosed:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Results of operations for the current period as though the business combination or combinations had been completed at the beginning of the period unless the acquisition was at or near the beginning of the period?	_____	_____	_____
b. Results of operations for the comparable period as though the business combination or combinations had been completed at the beginning of that period if comparative financial statements are presented? [SFAS 141, par. 54 (AC B51.167)]	_____	_____	_____
5. Does the supplemental pro forma information display revenue, income before extraordinary items and the cumulative effect of accounting changes, net income, and earnings per share at a minimum? ( <i>Note:</i> In determining the pro forma amounts, income taxes, interest expense, preferred share dividends, and depreciation and amortization of assets shall be adjusted to the accounting base recognized for each in recording the combination. Pro forma information related to results of operations of periods prior to the combination shall be limited to the results of operations for the immediately preceding period.) [SFAS 141, par. 55 (AC B51.168)]	_____	_____	_____
6. Does the supplemental pro forma information disclose the nature and amount of material, nonrecurring items included in the reported pro forma results of operations, if any? [SFAS 141, par. 55 (AC B51.168)]	_____	_____	_____
7. In the period in which an extraordinary gain is recognized related to a business combination, do the notes to the financial statements disclose the information required by paragraph 11 of APB 30? [SFAS 141, par. 56 (AC B51.169)]	_____	_____	_____
8. If a material business combination is completed after the balance sheet date but before the financial statements are issued, is the information required by Questions 1 and 2 above disclosed if practicable? [SFAS 141, par. 57 (AC B51.170)]	_____	_____	_____

***Interim Financial Information***

9. For summarized interim financial information of a public business enterprise is the following information disclosed if a material business combination is completed during the current year up to the date of the most recent interim statement of financial position presented:			
a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?	_____	_____	_____
b. The primary reasons for the acquisition, including a brief description of the factors that contributed to a purchase price that results in recognition of goodwill?	_____	_____	_____
c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?	_____	_____	_____
d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Supplemental pro forma information that discloses the results of operations for the current interim period and the current year up to the date of the most recent interim statement of financial position presented (and for the corresponding periods in the preceding year) as though the business combination had been completed as of the beginning of the period reported on?	_____	_____	_____
f. The nature and amount of any material, nonrecurring items included in the reported pro forma results of operations?	_____	_____	_____
g. Do the pro forma information disclosures in step e above display at a minimum, revenue, income before extraordinary items and the cumulative effect of accounting changes (including those on an interim basis), net income and earnings per share? [SFAS 141, par. 58 (AC B51.171)]	_____	_____	_____
10. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:			
a. Are the following disclosures made for the period in which a purchase business combination occurs:			
(1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?	_____	_____	_____
(2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntarily terminate (relocate) employees?	_____	_____	_____
(3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?	_____	_____	_____
(4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?	_____	_____	_____
b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:			
(1) A description of the type and amount of exit costs, involuntary employee termination costs, and relocation costs paid and charged against the liability?	_____	_____	_____
(2) The amount of any adjustment to the liability account and whether the corresponding entry was an adjustment of the costs of the acquired company or included in the determination of net income for the period? [EITF 95-3]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>B. Changes in Accounting</b>			
1. For changes in accounting principle, does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change including a clear explanation of why the newly adopted principle is preferable? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. For all changes in accounting principles accounted for as cumulative effect adjustments (all except those concerning a change in entity and those recognized in paragraphs 27–30 of APB 20):			
a. Are financial statements for prior periods included for comparative purposes presented as previously reported?	_____	_____	_____
b. Is the effect on income before extraordinary items and net income including, related per share amounts, shown?	_____	_____	_____
c. Is the cumulative effect of changing to the new accounting principle shown as a separate item in the income statement between the captions “extraordinary items” and “net income”?	_____	_____	_____
d. Is the tax effect of the cumulative change shown?	_____	_____	_____
e. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19–21 (AC A06.115–.117)]	_____	_____	_____
f. If the pro forma amounts cannot be computed or reasonably estimated for individual prior periods, although the cumulative effect on retained earnings at the beginning of the period of change can be determined, is the reason for not showing the pro forma amounts by periods explained? [APB 20, par. 25 (AC A06.121)]	_____	_____	_____
g. If computing the effect on retained earnings at the beginning of the period of change is considered impossible (for example, a change from the FIFO method of inventory pricing to the LIFO method), are disclosures limited to showing the effect of the change on results of net income of the period of change and explaining the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years? [APB 20, par. 26 (AC A06.122)]	_____	_____	_____
3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:			
a. Are all financial statements of prior periods presented restated? [APB 20, par. 27 (AC A06.123)]	_____	_____	_____
b. Is the effect on income before extraordinary items and net income (and related per share amounts) for all prior periods presented shown? [APB 20, par. 28 (AC A06.124)]	_____	_____	_____

Yes    No    N/A

### Practice Tips

Changes in accounting principle that are required to be accounted for by restating prior period financial statements include:

- Change from LIFO method of inventory pricing to another method
- Change in method of accounting for long-term, construction-type contracts
- Change to or from the full cost method of accounting in extractive industries
- Change from retirement-replacement-betterment accounting to depreciation accounting

\*\*\*\*\*

If the reporting entity is first issuing its financial statements for the purpose of (a) obtaining additional equity capital from investors, (b) effecting a business combination, or (c) registering securities, and its securities are not widely held, there is a one time exemption available from the required disclosure rules that allow all prior periods to be retroactively stated.

4. For accounting changes that are changes in estimates that affect several future periods that are not ordinary course of business accounting (e.g., uncollectible accounts), is the effect on income before extraordinary items, net income, and related per share amounts of the current period disclosed? (*Note:* Disclosure of the effect of a change in estimate that is in the ordinary course of business is recommended if the effect of such changes is material.)  
[APB 20, par. 33 (AC A06.132)]

\_\_\_\_\_

5. For accounting changes that are in effect a change in entity, are the following disclosed for all periods presented:

a. The nature of the change?

\_\_\_\_\_

b. The reason for the change?

\_\_\_\_\_

c. The effect of the change on income before extraordinary items, net income, and related per share amounts?  
[APB 20, par. 35 (AC A35.113)]

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6. For accounting changes that are corrections of errors in previously issued financial statements:

a. Is the nature of the error disclosed?

\_\_\_\_\_

b. Is its effect on income before extraordinary items, net income, and related per share amounts disclosed?  
[APB 20, par. 37 (AC A35.105)]

\_\_\_\_\_

7. For summaries of financial information in reports that include an accounting period in which a change in accounting principle was made, is the amount of the cumulative effect of the change that was included in net income of the period of the change shown separately along with the net income and related per share amounts of that period in the financial statements (not in a note or parenthetically)?  
[APB 20, par. 39 (AC A06.134)]

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Yes    No    N/A

The following table lists accounting changes that were most frequently reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

#### ACCOUNTING CHANGES

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Goodwill and other intangibles (SFAS 142)	465	19	N/C*	N/C*
Impairment or disposal of long-lived assets (SFAS 144)	156	N/C*	N/C*	N/C*
Business combinations (SFAS 141)	54	73	N/C*	N/C*
Gains or losses from debt extinguishments (SFAS 145)	54	N/C*	N/C*	N/C*
Derivatives and hedging activities (SFAS 133)	29	342	6	3
Consideration given by a vendor to customer or reseller (EITF 01-09)	23	N/C*	N/C*	N/C*
Sales incentives (EITF 00-14)	18	14	N/C*	N/C*
Costs of exit or disposal activities (SFAS 146)	18	N/C*	N/C*	N/C*
Stock compensation (FASB Interpretation 44)	16	5	5	N/C*
Vendor income statement characterization or consideration paid to a reseller (EITF 00-25)	12	N/C*	N/C*	N/C*
Income statement characterization of reimbursements received for out of pocket expenses (EITF 01-14)	11	N/C*	N/C*	N/C*
Asset retirement obligation (SFAS 143)	7	N/C*	N/C*	N/C*
Revenue recognition (SAB 101)	6	60	68	5
Inventories	5	3	9	5
Depreciable lives	5	3	3	4
Shipping and handling (EITF 00-10)	2	38	20	N/C*
Software development costs	0	2	13	66
Start-up costs	0	0	39	29
Other	25	27	34	27

\* N/C = Not Compiled. Line item was not included in table for year shown.

#### C. Commitments and Contingencies (See also Section J, *Guarantees*.)

1. Is disclosure made of the nature of estimated loss contingencies accrued when (a) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and (b) the amount of loss can be reasonably estimated?  
[SFAS 5, par. 9 (AC C59.108)]
2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in Question 1 above disclosed?  
[SFAS 5, par. 9 (AC C59.108)]
3. For loss contingencies not accrued because one or both of the conditions described in Question 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate the:
  - a. Nature of the contingency?
  - b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?
 [SFAS 5, par. 10 (AC C59.109)]
4. Are the nature and amount of guarantees disclosed (e.g., guarantees of indebtedness of others, guarantees to repurchase receivables (or, in

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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
some cases, the related property) that have been sold or otherwise assigned) even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASBI 45, par. 13 (AC G80.112); EITF 85-20]	_____	_____	_____
5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
6. Is disclosure of the following items made:			
a. Unused letters of credit?	_____	_____	_____
b. Commitments to reduce debts, maintain working capital, or restrict dividends? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
7. For long-term unconditional purchase obligations that are not recorded in the purchaser's balance sheet, are the following disclosed:			
a. Nature and term of the obligations?	_____	_____	_____
b. Amount of the fixed and determinable portion of the obligations as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the next five years?	_____	_____	_____
c. Nature of any variable components of the obligation?	_____	_____	_____
d. Amounts of purchases under the obligations for each year for which an income statement is presented? [SFAS 47, par. 7 (AC C32.102)]	_____	_____	_____

The following table lists the types of contingencies (loss and gain) and commitments that were most commonly reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

#### CONTINGENCIES

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>Loss Contingencies</b>					
Litigation	514	461	468	469	452
Environmental	261	249	249	261	266
Insurance	116	76	58	67	56
Possible tax assessments	54	44	47	45	54
Government investigations	96	61	45	51	31
Other—described	76	69	47	51	56
<b>Gain Contingencies</b>					
Operating loss carryforward	390	350	353	333	293
Investment credit carryforward	21	23	39	49	34
Plaintiff litigation	41	25	29	27	39
Other—described	17	6	5	5	12
Tax credits and other tax credit carryforwards	166	128	122	86	N/C*
Alternative minimum tax carryforward	70	79	80	80	N/C*
Capital loss carryforward	56	29	28	25	N/C*

#### COMMITMENTS

Debt covenant restrictions	388	375	376	362	329
Purchase agreements	196	157	124	128	132
Capital expenditures	66	69	72	70	82
Employment contracts	32	30	31	30	36
Additional payments related to acquisitions	41	45	20	27	28
Licensing agreements	25	23	17	15	20
Sales agreements	35	18	20	17	14
Other—described	80	68	58	74	48

\* N/C = Not Compiled. Line item was not included in table for year shown.

<u>Yes</u>	<u>No</u>	<u>N/A</u>
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**D. Current Vulnerability Due to Certain Concentrations**

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the enterprise vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22]
  
2. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside the reporting entity's home country that (a) exist at the date of the financial statements and (b) make the reporting entity vulnerable to the risk of a near-term severe impact, where it is at least reasonably possible that the events that could cause the severe impact will occur in the near term, are the following disclosed:
  - a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?
  - b. For operations located outside the reporting entity's home country, the carrying amounts of net assets and the geographic areas in which they are located? [SOP 94-6, par. 24]

_____	_____	_____
_____	_____	_____
_____	_____	_____

**E. Employee Stock Ownership Plans**

1. For any employee stock ownership plans (ESOPs) sponsored by the reporting entity, do the financial statements include disclosure of:
  - a. A description of the plan?
  - b. The basis for determining contributions?
  - c. The employee groups covered?
  - d. The nature and effect of significant matters affecting comparability of information for all periods presented?
  - e. For leveraged ESOPs and pension reversion ESOPs, the basis for releasing shares and how dividends on allocated and unallocated shares are used? [SOP 93-6, par. 53a]
  
2. A description of the accounting policies followed for ESOP transactions, including:
  - a. The method of measuring compensation?
  - b. The classification of dividends on ESOP shares?
  - c. The treatment of ESOP shares for earnings per share (EPS) computation? [SOP 93-6, par. 53b]

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If the reporting entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies set forth in Question 2 above disclosed for both blocks of shares? [SOP 93-6, par. 53b]	_____	_____	_____
4. Is the amount of compensation cost recognized during the period disclosed? [SOP 93-6, par. 53c]	_____	_____	_____
5. Is the number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date disclosed? ( <i>Note:</i> If the reporting entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, these disclosures should be made separately for both blocks of shares.) [SOP 93-6, par. 53d]	_____	_____	_____
6. Is the fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6? [SOP 93-6, par. 53e]	_____	_____	_____
7. Is disclosure made of the existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation? [SOP 93-6, par. 53f]	_____	_____	_____

#### Practice Tip

SOP 93-6 encourages, but does not require the application of its guidance to shares acquired by ESOPs on or before December 31, 1992. However, reporting entities with ESOPs that do not adopt SOP 93-6 are required to make all of the applicable disclosures listed above.

8. If the reporting entity issues shares or sells treasury shares to an ESOP or if a leveraged ESOP buys outstanding shares on the market rather than from the employer, has a corresponding charge to unearned ESOP shares, a contra-equity account presented as a separate item in the balance sheet, been reported? [SOP 93-6, par. 13]	_____	_____	_____
9. If the ESOP used assets from a terminated defined benefit pension plan to purchase employer shares, has a corresponding charge to unearned ESOP shares, a contra-equity account presented as a separate item in the balance sheet, been reported? [SOP 93-6, par. 46]	_____	_____	_____
10. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported on the employer's balance sheet? [SOP 93-6, par. 26]	_____	_____	_____
11. If the employer sponsors an ESOP with an employer loan, is the employer's note receivable from the ESOP not reported in the employer's balance sheet? [SOP 93-6, par. 27]	_____	_____	_____
12. If SOP 76-3 is still being followed for ESOP shares purchased before December 31, 1992, and if the reporting entity has guaranteed the debt of an ESOP or made a commitment to make future contributions to the			

ESOP sufficient to meet debt service requirements, are the compensation element and the interest element of annual contributions reported separately and are the interest rate and debt terms disclosed in the notes to the financial statements?

[SOP 76-3, par. 10]

Yes      No      N/A

\_\_\_\_\_

- F. Employers' Disclosures About Pensions and Other Postretirement Benefits\*** (*Note:* In December 2003, the FASB issued a revised SFAS 132, *Employers' Disclosures About Pensions and Other Postretirement Benefits*. This revised Statement retains the disclosure requirements contained in the original SFAS 132, which it replaces. It requires additional disclosures to those in the original SFAS 132. The following disclosures reflect the revised SFAS 132. Disclosures added by the revision are indicated at the end of the question. The provisions of SFAS 132 remain in effect until the provisions of the revised Statement are adopted. The revised SFAS 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by the revised SFAS 132 are effective for interim periods beginning after December 15, 2003. Disclosure of estimated future benefit payments required by paragraph 5(f) of revised SFAS 132 is effective for fiscal years ending after June 15, 2004. Disclosure of information for nonpublic entities required by paragraphs 8(c)–(f) and 8(j) of revised SFAS 132 (Questions 9c–f and 9j below) is effective for fiscal years ending after June 15, 2004. See the revised SFAS 132 for information about the effective date of disclosure information about foreign plans.)

***Pensions and Other Postretirement Benefits***

1. If an employer sponsors one or more defined benefit pension plans or one or more defined benefit post-retirement plans has the following information been provided, separately for pension plans and other postretirement benefit plans:
  - a. A reconciliation of beginning and ending balances of the benefit obligation<sup>1</sup> showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes<sup>2</sup> benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits?  
[SFAS 132, par. 5a (AC P16.150, P40.169)]
  - b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes,<sup>3</sup> contributions by

\_\_\_\_\_

\* EITF 03-4, *Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan*, states that cash balance plans should be considered a defined benefit plan.

<sup>1</sup> For defined benefit pension plans, the benefit obligation is the projected benefit obligation—the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation—the actuarial present value of benefits attributed to employee service rendered to a particular date.

<sup>2</sup> The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to SFAS 52, *Foreign Currency Translations*.

<sup>3</sup> Refer to footnote 2.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements? [SFAS 132, par. 5b (AC P16.150, P40.169)]	_____	_____	_____
c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:			
(1) The amount of any unamortized prior service cost?	_____	_____	_____
(2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of SFAS 87 or SFAS 106?	_____	_____	_____
(4) The net pension or other postretirement benefit prepaid assets or accrued liabilities?	_____	_____	_____
(5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 5c (AC P16.150, P40.169)]	_____	_____	_____
d. Information about plan assets:			
(1) For each major category of plan assets, which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented? ( <i>Added by revised SFAS 132.</i> )	_____	_____	_____
(2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations? ( <i>Added by revised SFAS 132.</i> )	_____	_____	_____
(3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined? ( <i>Added by revised SFAS 132.</i> )	_____	_____	_____
(4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets? ( <i>Added by revised SFAS 132.</i> ) [SFAS 132, par. 5d]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. For defined benefit pension plans, the accumulated benefit obligation? ( <i>Added by revised SFAS 132.</i> ) [SFAS 132, par. 5e]	_____	_____	_____
f. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service? ( <i>Added by revised SFAS 132.</i> ) [SFAS 132, par. 5f]	_____	_____	_____
g. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions? ( <i>Added by revised SFAS 132.</i> ) [SFAS 132, par. 5g]	_____	_____	_____
h. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment? [SFAS 132, par. 5h]	_____	_____	_____
i. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 5i]	_____	_____	_____
j. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost? ( <i>Partly added by revised SFAS 132.</i> ) [SFAS 132, par. 5j]	_____	_____	_____
k. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations? ( <i>Added by revised SFAS 132.</i> ) [SFAS 132, par. 5k]	_____	_____	_____
l. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 5l]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p><i>m.</i> The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (2) the accumulated postretirement benefit obligation for health care benefits? (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.) [SFAS 132, par. 5m]</p>	_____	_____	_____
<p><i>n.</i> If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period? [SFAS 132, par. 5n]</p>	_____	_____	_____
<p><i>o.</i> If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of SFAS 87 or paragraphs 53 and 60 of SFAS 106? [SFAS 132, par. 5o]</p>	_____	_____	_____
<p><i>p.</i> If applicable, any substantive commitment such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation? [SFAS 132, par. 5p]</p>	_____	_____	_____
<p><i>q.</i> If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event? [SFAS 132, par. 5q]</p>	_____	_____	_____
<p><i>r.</i> An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by SFAS 132? [SFAS 132, par. 5r]</p>	_____	_____	_____
<p>2. Are amounts related to the employer's results of operations disclosed for each period for which an income statement is presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]</p>	_____	_____	_____
<p>3. Are amounts related to the employer's statement of financial position disclosed for each balance sheet presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]</p>	_____	_____	_____
<b><i>Employers With Two or More Plans</i></b>			
<p>4. Are the disclosures required by SFAS 132 aggregated for all of an employer's defined benefit pension plans and for all of an employer's other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by paragraph 6 of SFAS 132 and paragraph 7 of SFAS 132? [SFAS 132, par. 6]</p>	_____	_____	_____
<p>5. Unless otherwise stated, are disclosures as of the measurement date for each statement of financial position presented? [SFAS 132, par. 6]</p>	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 6. Does the disclosure of amounts recognized in the statement of financial position present prepaid benefit costs and accrued benefit liabilities separately?<br>[SFAS 132, par. 6] | _____      | _____     | _____      |

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**Note:** Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans.  
[SFAS 132, par. 6]

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- |   |       |       |       |
|---|-------|-------|-------|
| 7. If aggregate disclosures are presented, does the employer disclose:  |       |       |       |
| a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented? | _____ | _____ | _____ |
| b. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets?<br>[SFAS 132, par. 6]                | _____ | _____ | _____ |

- |   |       |       |       |
|---|-------|-------|-------|
| 8. If a U.S. reporting entity combines disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans, are the benefit obligations of the plans outside the United States not significant relative to the total benefit obligation and do those plans not use significantly different assumptions?<br>[SFAS 132, par. 7] | _____ | _____ | _____ |
|---|-------|-------|-------|

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**Note:** A foreign reporting entity that prepares financial statements in conformity with U.S. generally accepted accounting principles (GAAP) shall apply the preceding guidance to its domestic and foreign plans.

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#### *Reduced Disclosure Requirements for Nonpublic Entities*

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**Note:** A nonpublic entity is not required to disclose the information required by paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of SFAS 132. See the related disclosure questions above.

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- |  |       |       |       |
|--|-------|-------|-------|
| 9. For a nonpublic entity <sup>4</sup> that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans, has the following information been disclosed, separately for pension plans and other postretirement benefit plans: |       |       |       |
| a. The benefit obligation, fair value of plan assets, and funded status of the plan?<br>[SFAS 132, par. 8a (AC P16.150A, P40.169A)]  | _____ | _____ | _____ |
| b. Employer contributions, participant contributions, and benefits paid?<br>[SFAS 132, par. 8b (AC P16.150A, P40.169A)]  | _____ | _____ | _____ |
- 

<sup>4</sup> A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market or (c) that is controlled by an entity covered by (a) or (b).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Information about plan assets:			
(1) For each major category of plan assets which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented? <i>(Added by revised SFAS 132.)</i>	_____	_____	_____
(2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations? <i>(Added by revised SFAS 132.)</i>	_____	_____	_____
(3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined? <i>(Added by revised SFAS 132.)</i>	_____	_____	_____
<hr/> <b>Note:</b> Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets. <i>(Added by revised SFAS 132.)</i> <hr/>			
d. For defined benefit pension plans, the accumulated benefit obligation? <i>(Added by revised SFAS 132.)</i> [SFAS 132, par. 8d]	_____	_____	_____
e. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter? (The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.) <i>(Added by revised SFAS 132.)</i> [SFAS 132, par. 8e]	_____	_____	_____
f. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented? (Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.) <i>(Added by revised SFAS 132.)</i> [SFAS 132, par. 8f]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
g. The amounts recognized in the statements of financial position, including net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8g]	_____	_____	_____
h. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8h]	_____	_____	_____
i. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost? ( <i>Partly added by revised SFAS 132.</i> ) [SFAS 132, par. 8i]	_____	_____	_____
j. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations? ( <i>Added by revised SFAS 132.</i> ) [SFAS 132, par. 8j]	_____	_____	_____
k. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 8k]	_____	_____	_____
l. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period? [SFAS 132, par. 8l]	_____	_____	_____
m. The nature and effect of significant non-routine events, such as amendments, combinations, divestitures, curtailments, and settlements? [SFAS 132, par. 8m]	_____	_____	_____
10. Are amounts related to the employer's results of operations disclosed for each period for which a statement of income is presented? [SFAS 132, par. 8]	_____	_____	_____
11. Are amounts related to the employer's statement of financial position disclosed as of the measurement date used for each statement of financial position presented? [SFAS 132, par. 8]	_____	_____	_____

*Disclosures in Interim Financial Reports*

12. If the entity is publicly traded, does it disclose the following information in its interim financial statements that include a statement of income:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p><i>a.</i> The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment? (<i>Added by revised SFAS 132.</i>)</p>	_____	_____	_____
<p><i>b.</i> The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.) (<i>Added by revised SFAS 132.</i>) [SFAS 132, par. 9]</p>	_____	_____	_____
<p>13. If the entity is nonpublic, does it disclose in interim periods, for which a complete set of financial statements is presented, the total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 8(f) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.) (<i>Added by revised SFAS 132.</i>) [SFAS 132, par. 10]</p>	_____	_____	_____
<b><i>Defined Contribution Plans</i></b>			
<p>14. Does the employer disclose the amount of cost recognized for defined contribution pension plans and for other defined contribution postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans? [SFAS 132, par. 11]</p>	_____	_____	_____
<p>15. Do the disclosures include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 11]</p>	_____	_____	_____
<b><i>Multiemployer Plans</i></b>			
<p>16. Has the employer disclosed the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented? [SFAS 132, par. 12]</p>	_____	_____	_____
<p>17. If the employer chooses to disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans, do the disclosures include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 12]</p>	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 18. In some situations, withdrawal from a multiemployer plan may result in an employer having an obligation to the plan for a portion of the unfunded benefit obligation of the pension plans and other postretirement benefit plans. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, have the provisions of SFAS 5, <i>Accounting for Contingencies</i> , been applied (SFAS 87, paragraph 70)?<br>[SFAS 132, par. 13]                               | _____      | _____     | _____      |
| 19. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), has the employer applied the provisions of SFAS 5 (SFAS 106, paragraph 83)?<br>[SFAS 132, par. 13] | _____      | _____     | _____      |

**Other Matters**

- |   |       |       |       |
|---|-------|-------|-------|
| 20. If the matters addressed in EITF 03-2, <i>Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities</i> , apply, are the disclosure requirements of that EITF Issue complied with?<br>[EITF 03-2] | _____ | _____ | _____ |
|---|-------|-------|-------|

**G. Environmental Remediation Liabilities**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Is there disclosure of the following accounting policies:   |       |       |       |
| a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?  | _____ | _____ | _____ |
| b. The policy concerning the timing of recognition of recoveries? ( <i>Encouraged, but not required.</i> )<br>[SOP 96-1 (Ch. 7, pars. 11 and 12)]  | _____ | _____ | _____ |
| 2. Do the financial statements disclose the event, situation, or set of circumstances that triggered recognition of loss contingencies that arose out of the reporting entity's environmental remediation-related obligations? ( <i>Encouraged, but not required.</i> )<br>[SOP 96-1 (Ch. 7, par. 12)] | _____ | _____ | _____ |

**Recognized Losses and Recoveries of Losses, and Reasonably Possible Loss Exposures**

- |  |       |       |       |
|--|-------|-------|-------|
| 3. With respect to recorded accruals for environmental remediation loss contingencies and assets for third-party recoveries related to environmental remediation obligations, are the following disclosed?   | _____ | _____ | _____ |
| a. The nature of the accruals, if such disclosure is necessary for the financial statements not to be misleading, and, in situations where disclosure of the nature of the accruals is necessary, the total amount accrued for the remediation obligation, if such disclosure is also necessary for the financial statements not to be misleading? | _____ | _____ | _____ |
| b. If any portion of the accrued obligation is discounted, the undiscounted amount of the obligation and the discount rate used in the present-value determinations?   | _____ | _____ | _____ |



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. If the criteria of SOP 94-6 (it is at least reasonably possible that an estimate of the effect on the financial statements of a matter that existed at the balance-sheet date will change in the near term and the effect of the change would be material to financial statements) are met with respect to the accrued obligation or to any recognized asset for third-party recoveries, an indication that it is at least reasonably possible that a change in the estimate of the obligation or of the asset will occur in the near term? [SOP 96-1 (Ch. 7, par. 20)]	_____	_____	_____
4. With respect to reasonably possible loss contingencies, including reasonably possible loss exposures in excess of the amount accrued, are the following disclosed:			
a. The nature of the reasonably possible loss contingency, that is, a description of the reasonably possible remediation obligation, and an estimate of the possible loss exposure or the fact that such an estimate cannot be made?	_____	_____	_____
b. If the criteria of SOP 94-6 are met with respect to estimated loss (or gain) contingencies, an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
c. The estimated time frame of disbursements for recorded amounts if expenditures are expected to continue over the long term? <i>(Encouraged, but not required.)</i>	_____	_____	_____
d. The estimated time frame for realization of recognized probable recoveries, if realization is not expected in the near term? <i>(Encouraged, but not required.)</i>	_____	_____	_____
e. If the criteria of SOP 94-6 are met with respect to the accrued obligation, to any recognized asset for third-party recoveries, or to reasonably possible loss exposures or disclosed gain contingencies, the factors that cause the estimate to be sensitive to change? <i>(Encouraged, but not required.)</i>	_____	_____	_____
f. If an estimate of the probable or reasonably possible loss or range of loss cannot be made, the reasons why it cannot be made? <i>(Encouraged, but not required.)</i>	_____	_____	_____
g. If information about the reasonably possible loss or the recognized and additional reasonably possible loss for an environmental remediation obligation related to an individual site is relevant to an understanding of the financial position, cash flows, or results of operations of the entity, the following with respect to the site: <i>(Encouraged, but not required.)</i>			
(1) The total amount accrued for the site?	_____	_____	_____
(2) The nature of any reasonably possible loss contingency or additional loss, and an estimate of the possible loss or the fact that an estimate cannot be made and the reasons why it cannot be made?	_____	_____	_____
(3) Whether other potentially responsible parties are involved and the entity's estimated share of the obligation?	_____	_____	_____
(4) The status of regulatory proceedings?	_____	_____	_____
(5) The estimated time frame for resolution of the contingency? [SOP 96-1 (Ch. 7, pars. 21 and 22)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b><i>Probable But Not Reasonably Estimable Losses</i></b>			
5. If the reporting entity's probable but not reasonably estimable environmental remediation obligations may be material, are the nature of the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed? [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____
6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? ( <i>Encouraged, but not required</i> ) [SOP 96-1 (Ch. 7, par. 25)]	_____	_____	_____
<b><i>Environmental Remediation Costs Recognized Currently</i></b>			
7. Is the amount of environmental remediation costs recognized in the income statement disclosed in the following detail: ( <i>Encouraged, but not required.</i> )			
a. The amount recognized for environmental remediation loss contingencies in each period?	_____	_____	_____
b. The amount of any recovery from third parties that is credited to environmental remediation costs in each period?	_____	_____	_____
c. The income statement caption in which environmental remediation costs and credits are included? [SOP 96-1 (Ch. 7, par. 29)]	_____	_____	_____
<b><i>Other Matters</i></b>			
8. Do the financial statements include a <i>contingency conclusion</i> that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? ( <i>Optional.</i> ) [SOP 96-1 (Ch. 7, par. 30)]	_____	_____	_____
9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? ( <i>Optional.</i> ) [SOP 96-1 (Ch. 7, par. 31)]	_____	_____	_____
<b>H. Extinguishments of Debt</b>			
1. If debt was considered to be extinguished under the provisions of SFAS 76 prior to the effective date of SFAS 125, do disclosures include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished at the end of the period as long as the debt remains outstanding? [SFAS 140, par. 17b (AC L35.109a)]	_____	_____	_____
2. If assets were set aside after the effective date of SFAS 125 (December 31, 1996) solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on assets? [SFAS 140, par. 17c (AC L35.109b)]	_____	_____	_____
3. If the reclassification to earnings of the amount in accumulated comprehensive income resulting from a cash flow hedge of debt is required under SFAS 133 when the debt is extinguished, is the reclassified amount not classified as extraordinary? [EITF 00-9]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>I. Financial Instruments</b>			
<i>Derivative Instruments and Hedging Activities</i>			
1. If an entity holds or issues derivative instruments (or non-derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?	_____	_____	_____
2. Does the description distinguish between derivative instruments (and non-derivative instruments) designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, derivative instruments (and non-derivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?	_____	_____	_____
3. Does the description also indicate the entity's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?	_____	_____	_____
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?	_____	_____	_____
5. Qualitative disclosures about an entity's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of an entity's overall risk management profile. If appropriate, an entity is <b>encouraged, but not required</b> , to provide such additional qualitative disclosures. Have such disclosures been made? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
6. Do the entity's disclosures for every reporting period for which a complete set of financial statements is presented also include the following:			
<i>Fair Value Hedges</i>			
a. For derivative instruments, as well as non-derivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:			
(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?	_____	_____	_____
(2) The amount of net gain or loss recognized in earnings when a hedged firm commitment no longer qualifies as a fair value hedge? [SFAS 133, par. 45a (AC D50)]	_____	_____	_____
<i>Cash Flow Hedges</i>			
b. For derivative instruments that have been designated and have qualified as cash flow hedging instruments and for the related hedged transactions:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?	_____	_____	_____
(2) A description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income, and the estimated net amount of the existing gains or losses at the reporting date that is expected to be reclassified into earnings within the next 12 months?	_____	_____	_____
(3) The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments?	_____	_____	_____
(4) The amount of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within additional two-month period of time thereafter? [SFAS 133, par. 45b, as amended by SFAS 138, par. 4r (AC D50)]	_____	_____	_____

*Hedges of the Net Investment in a Foreign Operation*

c. For derivative instruments, as well as non-derivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133, par. 45c (AC D50)]	_____	_____	_____
7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or non-financial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the entity presented a more complete picture of its activities by disclosing that information? ( <i>Encouraged, but not required.</i> ) [SFAS 133, par. 45 (AC D50)]	_____	_____	_____

*Disclosures About Fair Value of Financial Instruments*

8. Has the entity disclosed, either in the body of the financial statements or in the accompanying notes, <sup>5</sup> the fair value of financial instruments (except for those excluded in paragraphs 8 and 13 of SFAS 107) for which it is practicable to estimate fair value? [SFAS 107, par. 10 (AC F25)]	_____	_____	_____
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<sup>5</sup> If disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Statement as amended.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. Has the fair value disclosed in the notes been presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position? [SFAS 107, par. 10 (AC F25)]	_____	_____	_____
10. In disclosing the fair value of a financial instrument, has the entity taken care not to net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASBI 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , or the exceptions for master netting arrangements in paragraph 10 of FASBI 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASBI 41, <i>Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements</i> ? [SFAS 107, par. 14 (AC F25)]	_____	_____	_____
11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:			
a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25)]	_____	_____	_____

### Practice Tip

SFAS 126, *Exemption From Certain Required Disclosures About Financial Instruments for Certain Non-Public Entities*, as amended, makes the disclosure about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

- Are nonpublic entities
- Have total assets of less than \$100 million on the date of the financial statements, and
- Have no instrument that, in whole or in part, is accounted for as a derivative instrument under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

### Disclosure About Concentrations of Credit Risk of All Financial Instruments

12. Except as indicated in paragraph 15B<sup>6</sup> of SFAS 107, has the entity disclosed all significant concentrations of credit risk arising from all

<sup>6</sup> SFAS 107, paragraph 15B, provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

- Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
- The financial instruments described in paragraphs 8(a), 8(c), 8(e), and 8(f) of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Post-Employment Benefits*, SFAS 123, *Accounting for Stock-Based Compensation*, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
financial instruments, whether from an individual counterparty or groups of counterparties ( <i>Group concentrations</i> of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107, par. 15A (AC F25)]	_____	_____	_____
13. Has the entity made the following disclosures about each significant concentration:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The entity's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements for which the entity is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the entity's maximum amount of loss due to credit risk? [SFAS 107, par. 15A (AC F25)]	_____	_____	_____
14. Has the entity disclosed quantitative information <sup>7</sup> about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? ( <i>Encouraged, but not required.</i> ) [SFAS 107, par. 15C (AC F25)]	_____	_____	_____
15. Are gains and losses (realized and unrealized) on all derivative instruments within the scope of SFAS 133 shown net when recognized in the income statement, whether or not settled physically, if the derivative instruments are held for trading purposes? [EITF 02-3]	_____	_____	_____

<sup>7</sup> Appropriate ways of reporting the quantitative information encouraged will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate re-pricing or maturity dates, (d) the duration of the financial instruments, or (e) the entity's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and an entity is encouraged to develop other ways of reporting quantitative information.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b><i>Disclosures About Certain Financial Instruments With Characteristics of Both Liabilities and Equity</i></b>			
<p><b>Important:</b> Depending upon whether an entity is a nonpublic entity, a public entity, or an SEC registrant, FASB Staff Position (FSP) 150-3 defers the effective date for applying the provisions of SFAS 150, <i>Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity</i>. Readers should read FSP 150-3 to understand the various effective dates of SFAS 150. FSP 150-3 is available at the FASB Web site at <a href="http://www.fasb.org">www.fasb.org</a>.</p> <p>Early adoption of the provisions of SFAS 150 for instruments within the scope of the indefinite deferrals established by FSP 150-3 is precluded during the deferral period.</p> <p>During the deferral period, all public entities as well as nonpublic entities that are SEC registrants are required to follow the disclosure requirements in paragraphs 26 and 27 of SFAS 150 (Questions 19 and 20 below) as well as disclosures required by other applicable guidance.</p>			
16. For items within the scope of SFAS 150, are they presented as liabilities (or assets in some circumstances), and are those items not presented between the liabilities section and the equity section of the statement of financial position? [SFAS 150, par. 18]	_____	_____	_____
17. If the entity has no equity instruments outstanding but has financial instruments in the form of shares, all of which are mandatorily redeemable financial instruments:			
a. Are they classified as liabilities?	_____	_____	_____
b. Are they described in the statement of financial position as "shares subject to mandatory redemption?"	_____	_____	_____
c. Are payments to holders of such instruments and related accruals presented separately from payments to and interest due to other creditors in statements of cash flows and income? [SFAS 150, pars. 19 and 28]	_____	_____	_____
18. Do the entities referred to in Question 17 above disclose the components of the liability that would otherwise be related to shareholders' interest and other comprehensive income, if any, subject to the redemption feature (for example, par value and other paid-in amounts of mandatorily redeemable instruments should be disclosed separately from the amount of retained earnings or accumulated deficit)? [SFAS 150, par. 28]	_____	_____	_____
19. For issuers of financial instruments with the scope of SFAS 150:			
a. Are the nature and terms of the financial instruments and the rights and obligations embodied in those instruments disclosed?	_____	_____	_____
b. Does that disclosure include information about settlement alternatives, if any, in the contract and identify the entity that controls the settlement alternatives? [SFAS 150, par. 26]	_____	_____	_____
20. For all outstanding financial instruments within the scope of SFAS 150 and for each settlement alternative, do issuers disclose:			
a. The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions specified in the contract if the settlement were to occur at the reporting date?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. How changes in the fair value of the issuer's equity shares would affect those settlement amounts (for example, "the issuer is obligated to issue an additional <i>x</i> shares or pay an additional <i>y</i> dollars in cash for each \$1 decrease in the fair value of one share")?	_____	_____	_____
c. The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable?	_____	_____	_____
d. The maximum number of shares that could be required to be issued, if applicable?	_____	_____	_____
e. That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable?	_____	_____	_____
f. For a forward contract or and option indexed to the issuer's equity shares, the forward price or option strike price, the number of issuer's shares to which the contract is indexed, and the settlement date or dates of the contract, as applicable? [SFAS 150, par. 27]	_____	_____	_____
21. Are mandatorily redeemable financial instruments classified as liabilities unless the redemption is required to occur only upon the liquidation or termination of the reporting entity? [SFAS 150, par. 9]	_____	_____	_____
22. Are financial instruments, other than an outstanding share, that, at inception, (a) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation, and (b) requires or may require the issuer to settle the obligation by transferring assets, classified as liabilities (or assets in some circumstances)? [SFAS 150, par.11]	_____	_____	_____
23. Are financial instruments that embody an unconditional obligation, or financial instruments other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, classified as liabilities (or assets in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any one of the items indicated in paragraph 12 of SFAS 150? [SFAS 150, par. 12]	_____	_____	_____

The following table lists the types of financial instruments that were most commonly reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

#### FINANCIAL INSTRUMENTS

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Foreign currency contracts	308	329	304	282	279
Interest rate contracts	341	315	259	249	244
Commodity contracts	109	119	97	82	77
Guarantees:					
Debt	226	136	123	85	88
Lease payments	55	35	33	23	29
Contract performance	54	35	15	15	24
Support agreements	24	7	9	10	17
Other	30	28	39	14	22
Letters of credit	263	205	182	172	165
Sale of receivables with recourse	20	25	45	26	28



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>J. Guarantees</b>			
1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:			
a. The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee?	_____	_____	_____
b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?	_____	_____	_____
c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?	_____	_____	_____
d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the reasons why the maximum potential amount cannot be estimated disclosed?	_____	_____	_____
e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS 5, paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?	_____	_____	_____
f. The nature of—			
(1) Any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee?	_____	_____	_____
and			
(2) Any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee?	_____	_____	_____
g. If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee? [FASBI 45, par. 13 (AC G80.112)]	_____	_____	_____
2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FASBI 45 pursuant to paragraph 7(b) of FASBI 45 (collectively referred to as product warranties), is the following information disclosed:			
a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?	_____	_____	_____
b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?	_____	_____	_____
c. Does the tabular reconciliation present—			
(1) The beginning balance of the aggregate product warranty liability?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) The aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?	_____	_____	_____
(3) The aggregate changes in the liability for accruals related to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?	_____	_____	_____
(4) The ending balance of the aggregate product warranty liability? [FASBI 45, par. 14 (AC G80.113)]	_____	_____	_____

**K. Foreign Currency Translation**

1. Is the aggregate transaction gain or loss included in net income for the period disclosed? ( <i>Note:</i> For this disclosure, gains and losses on forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52, shall be considered transaction gains or losses. <sup>8</sup> ) [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____
2. Is an analysis of changes during the period in the accumulated amount of translation adjustments reported in equity included, and does it disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and inter-company balances? ( <i>Note:</i> Paragraph 45c of SFAS 133 specifies additional disclosures for instruments designated as hedges of the foreign currency exposure of a net investment in a foreign operation. See section J.)	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. If significant rate changes have occurred after the date of the financial statements, are the effects on unsettled balances related to foreign currency translations disclosed? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. If the reporting entity entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (because they are two separate legal transactions and do not have the legal right of setoff)? [EITF 86-25; FASBI 39]	_____	_____	_____

<sup>8</sup> If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, the phrase "forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52 shall be considered transaction gains or losses" is replaced by "derivative instruments shall comply with paragraph 45 of SFAS 133."

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Is the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities reported in shareholders' equity? [EITF 96-15]	_____	_____	_____
7. Are foreign currency transaction gains and losses on a forward exchange contract or a foreign-currency-denominated liability that is designated as, and is effective as, a hedge of the foreign-currency-denominated available-for-sale debt security also reported in the SFAS 115 component of shareholders' equity (to offset the portion of the market value change of a foreign-currency-denominated available-for-sale debt security attributable to foreign exchange rates)? [EITF 96-15]	_____	_____	_____

## **L. Long-Lived Assets and Disposal Groups to Be Disposed Of**

### ***Reporting Discontinued Operations***

1. Are the results of operations of a <i>component of an entity</i> (as that phrase is defined in SFAS 144) that either has been disposed of or is classified as held for sale reported in discontinued operations in accordance with paragraph 43 of SFAS 144 (Questions 2, 3, 4, and 5 below) if both of the following conditions are met:			
a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction, and—	_____	_____	_____
b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction? [SFAS 144, par. 42 (AC I14.102)]	_____	_____	_____
2. In a period in which a component of an entity either has been disposed of or is classified as held for sale, does the income statement for current and prior periods report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 of SFAS 144, in discontinued operations? [SFAS 144, par. 43 (AC I14.103)]	_____	_____	_____
3. Are the results of operations of a component classified as held for sale reported in discontinued operations in the period(s) in which they occur? [SFAS 144, par. 43 (AC I14.103)]	_____	_____	_____
4. Are the results of discontinued operations, less applicable income taxes (benefit), reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (if applicable)? [SFAS 144, par. 43 (AC I14.103)]	_____	_____	_____
5. Is the gain or loss recognized on the disposal disclosed either on the face of the income statement or in the notes to the financial statements? [SFAS 144, par. 43 (AC I14.103)]	_____	_____	_____
6. Are adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period classified separately in the current period in discontinued operations? [SFAS 144, par. 44 (AC I14.104)]	_____	_____	_____
7. Are the nature and amount of such adjustments (as discussed in Question 6 above) disclosed? [SFAS 144, par. 44 (AC I14.104)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b><i>Reporting Disposal Gains or Losses in Continuing Operations</i></b>			
8. Is a gain or loss, that is recognized on the sale of a long-lived asset (disposal group) that is not a component of an entity, included in income from continuing operations before income taxes in the income statement? [SFAS 144, par. 45 (AC D60.118)]	_____	_____	_____
9. If a subtotal such as "income from operations" is presented, does it include the amounts of those gains or losses considered in Question 8 above? [SFAS 144, par. 45 (AC D60.118)]	_____	_____	_____
<b><i>Reporting a Long-Lived Asset or Disposal Group Sold or Classified as Held for Sale</i></b>			
10. If the criteria of paragraph 30 of SFAS 144 are met (and thus a long-lived asset is classified as held for sale) after the balance sheet date but before issuance of the financial statements, does the long-lived asset continue to be classified as held and used in those financial statements when issued and is the information required by paragraph 47a of SFAS 144 (Question 15a below) disclosed in the notes to the financial statements? [SFAS 144, par. 33 (AC D60.110)]	_____	_____	_____
11. Is a long-lived asset that is classified as held for sale presented separately in the statement of financial position? [SFAS 144, par. 46 (AC D60.119)]	_____	_____	_____
12. Are the assets and liabilities of a disposal group that is classified as held for sale presented separately in the asset and liability sections, respectively, of the statement of financial position? [SFAS 144, par. 46 (AC D60.119)]	_____	_____	_____
13. Are those assets and liabilities considered in Question 12 above, <u>not</u> offset and presented as a single amount? [SFAS 144, par. 46 (AC D60.119)]	_____	_____	_____
14. Are the major classes of assets and liabilities that are classified as held for sale separately disclosed either on the face of the statement of financial position or in the notes to financial statements? [SFAS 144, par. 46 (AC D60.119)]	_____	_____	_____
15. Is the following information disclosed in the notes to the financial statements that cover the period in which a long-lived asset (disposal group) either has been sold or is classified as held for sale:			
a. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group?	_____	_____	_____
b. The gain or loss recognized in accordance with paragraph 37 of SFAS 144 and if not separately presented on the face of the income statement, the caption in the income statement that include that gain or loss?	_____	_____	_____
c. If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. If applicable, the segment in which the long-lived asset (disposal group) is reported under SFAS 131? [SFAS 144, par. 47 (AC D60.120 and I14.105)]	_____	_____	_____
16. If either paragraph 38 or 40 of SFAS 144 applies, is a description of the facts and circumstances leading to the decision to change the plan to sell the long-lived asset (disposal group) and its effect on the results of operations for the period and any prior periods presented disclosed in the notes to the financial statements that include the period of that decision? [SFAS 144, par. 48 (AC D60.121 and I14.106)]	_____	_____	_____
17. If a long-lived asset is to be disposed of other than by sale, does it continue to be classified as held and used until it is disposed of? [SFAS 144, par. 27 (AC D60.104)]	_____	_____	_____

#### M. Impaired Loans

1. Is the following information about loans that meet the definition of impaired loans in SFAS 114 disclosed as of the date of each balance sheet presented:			
a. The total recorded investment in the impaired loans?	_____	_____	_____
b. The amount of that recorded investment for which there is a related allowance for credit losses determined in accordance with SFAS 114 and the amount of that allowance?	_____	_____	_____
c. The amount of that recorded investment for which there is no related allowance for credit losses determined in accordance with SFAS 114? [SFAS 118, par. 6i (AC I08.118a)]	_____	_____	_____
2. Is the policy for recognizing interest income on impaired loans, including how cash receipts are handled, disclosed? [SFAS 114, par. 6i (AC I08.118b)]	_____	_____	_____
3. Are the following disclosures made for each period for which an income statement is presented:			
a. The average recorded investment in the impaired loans during the period?	_____	_____	_____
b. The related amount of interest income recognized during the time within the period that the loans were considered impaired?	_____	_____	_____
c. Unless not practicable, the amount of interest income recognized using a cash-basis method of accounting during the time within the period that the loans were impaired?	_____	_____	_____
d. Activity in the total allowance for credit losses related to loans, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off? ( <i>Note:</i> The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with SFAS 5 and SFAS 114.) [SFAS 118, par. 6i (AC I08.118c)]	_____	_____	_____

Yes    No    N/A

### Practice Tip

Information about impaired loans that have been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by Questions 1 and 3a–c above in years after the restructuring if (a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the time of the restructuring for a new loan with comparable risk and (b) the loan is not impaired based on the terms specified in the restructuring agreement. That exception must be applied consistently for Questions 1 and 3a–c above to all loans restructured in a troubled debt restructuring that meet the specified criteria.

4. In years after a restructuring, are loans that are restructured in a troubled debt restructuring into two (or more) loan agreements considered separately when assessing the applicability of the disclosures in paragraphs 20a and 20c of SFAS 114 as amended by SFAS 118 (Questions 1 and 3a–c above)?  
[EITF 96-22]
5. If the reporting entity is an SEC registrant, is adequate disclosure made of the impact of the multiple loan structures on impaired loan disclosures for loans restructured in troubled debt restructurings?  
[EITF 96-22]

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### N. Impairment of Long-Lived Assets to Be Held and Used

1. Is an impairment loss recognized for a long-lived asset (asset group) to be held and used included in income from continuing operations before income taxes in the income statement of a business enterprise?  
[SFAS 144, par. 25 (AC I08.160)]
2. Is the following information disclosed in the notes to the financial statements that include the period in which an impairment loss is recognized:
  - a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment?
  - b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement that includes the loss?
  - c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)?
  - d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under SFAS 131, *Disclosures About Segments of an Enterprise and Related Information*?  
[SFAS 144, par. 26 (AC I08.161)]

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### O. Leases—Lessors

1. For sales-type and direct financing leases, do disclosures include:
  - a. The components of the net investment in sales-type and direct financing leases as of each balance-sheet date:
    - (1) Future minimum lease payments to be received, with separate deductions for (a) amounts representing executory costs, including any profit thereon, included in minimum lease payments and (b) the accumulated allowances for uncollectible minimum lease payments receivable?

\_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) The unguaranteed residual values accruing to the benefit of the lessor?	_____	_____	_____
(3) For direct financing leases only, initial direct costs?	_____	_____	_____
(4) Unearned income?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a, as amended by SFAS 91, par. 25 (AC L10.119a)]	_____	_____	_____
2. For operating leases, do disclosures include:			
a. The cost and carrying amount (if different) of property on lease or held for leasing by major classes of property according to nature and function, and the amount of accumulated depreciation in total as of the latest balance-sheet date?	_____	_____	_____
b. Minimum future rentals on noncancelable leases as of the latest balance-sheet date presented, in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
3. For investments in leveraged leases, do disclosures include:			
a. In the balance sheet, the amount of deferred taxes presented separately from the remainder of the net investment?	_____	_____	_____
b. In the income statement or the notes thereto, separate presentation (from each other) of pretax income from the leveraged lease, the tax effect of pretax income, and the amount of investment tax credit recognized as income during the period?	_____	_____	_____
c. When leveraged leasing is a significant part of the lessor's business activities in terms of revenue, net income, or assets, the components of the net investment balance in leveraged leases in the notes to the financial statements? [SFAS 13, par. 47 (AC L10.149)]	_____	_____	_____
4. Do disclosures include a general description of the lessor's leasing arrangements? [SFAS 13, par. 23 (AC L10.119c)]	_____	_____	_____
5. For leasing transactions with related parties, are the nature and extent of the transaction disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
6. For contingent rental income:			
a. Has disclosure been made of the lessor's accounting policy for contingent rental income?	_____	_____	_____
b. If the lessor accrues contingent rental income prior to the lessee's achievement of the specified target (provided achievement of that target is considered probable), has disclosure been made of the impact on rental income as if the lessor's accounting policy was to defer contingent rental income until the specified target is met? [EITF 98-9]	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 7. Is the effect on the balance sheet and the income statement resulting from a change in lease classification under item (b) of paragraph 6 of EITF 00-11, disclosed for leases that at inception would have been classified differently had the guidance in EITF 00-11 been in effect at the inception of the original lease?<br>[EITF 00-11] | _____      | _____     | _____      |

**P. Leases—Lessees**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. For capital leases, do disclosures include:  |       |       |       |
| a. The gross amounts of assets recorded as of each balance-sheet date presented by major classes according to nature or function? ( <i>Note:</i> This information may be combined with comparable information for owned assets.)<br>[SFAS 13, par. 16 (AC L10.112a(1))]   | _____ | _____ | _____ |
| b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments and for the amount of imputed interest necessary to reduce net minimum lease payments to present value?<br>[SFAS 13, par. 16a (AC L10.112a(2))] | _____ | _____ | _____ |
| c. Total of future minimum sublease rentals to be received in the future under noncancelable subleases as of the latest balance-sheet date?<br>[SFAS 13, par. 16a (AC L10.112a(3))]   | _____ | _____ | _____ |
| d. Total contingent rentals actually incurred for each period for which an income statement is presented?<br>[SFAS 13, par. 16a (AC L10.112a(4))]   | _____ | _____ | _____ |
| e. Are the following separately identified in the balance sheet or in the notes to the financial statements:  |       |       |       |
| (1) Assets recorded under capital leases and the accumulated amortization thereon related obligations under the lease?  | _____ | _____ | _____ |
| (2) The related obligations under the lease?<br>[SFAS 13, par. 13 (AC L10.112a(5))]   | _____ | _____ | _____ |
| f. Amortization expense, unless it is included in depreciation expense and that fact is disclosed?<br>[SFAS 13, par. 13 (AC L10.112a(5))]   | _____ | _____ | _____ |
| 2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:   |       |       |       |
| a. Future minimum rental payments required as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years?  | _____ | _____ | _____ |
| b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?<br>[SFAS 13, par. 16b (AC L10.112b)]   | _____ | _____ | _____ |
| 3. For all operating leases:  |       |       |       |
| a. Do disclosures include rental expense for each period for which an income statement is presented?  | _____ | _____ | _____ |
| b. Are separate amounts presented for:  |       |       |       |
| (1) Minimum rentals?  | _____ | _____ | _____ |



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Contingent rentals?	_____	_____	_____
(3) Sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. The basis on which contingent rental payments are determined?	_____	_____	_____
b. The existence and terms of renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictions imposed by lease agreements, such as those concerning dividends, additional debt or further leasing? [SFAS 13, par. 16d (AC L10.112d)]	_____	_____	_____
5. If there is a modification of lease terms and the increase in lease payments is a termination penalty, is the accounting policy disclosed in accordance with APB 22? [EITF 95-17; APB 22, pars. 12-14 (AC L10.108 and 109)]	_____	_____	_____
<b>Q. Nonmonetary Transactions</b>			
1. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	_____	_____	_____
b. Basis of accounting for the assets transferred?	_____	_____	_____
c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC N35.120)]	_____	_____	_____
2. Is the amount of gross operating revenue recognized as a result of nonmonetary transactions addressed by EITF 00-8, <i>Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction With Providing Goods or Services</i> , disclosed in each period's financial statements? [EITF 00-8]	_____	_____	_____
<b>R. Postemployment Benefits</b>			
1. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability related benefits, job training and counseling, and continuation of health and insurance coverage) has not been accrued because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____
<b>S. Related-Party Transactions and Economic Dependency</b>			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved?	_____	_____	_____
b. For each period for which an income statement is presented:			
(1) A description of the transaction, including transactions to which no amounts or nominal amounts were ascribed?	_____	_____	_____
(2) Other information deemed necessary to an understanding of the effects of the transaction on the financial statements?	_____	_____	_____
(3) The dollar amount of transactions?	_____	_____	_____
(4) The effect of any changes in the method of establishing the terms from that used in the preceding period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–.104)]	_____	_____	_____
2. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]	_____	_____	_____
3. If (a) the reporting entity and one or more other enterprises are under common ownership or management control and (b) the existence of the control could result in operating results or financial position of the reporting entity being significantly different from that if the enterprise were autonomous, is the nature of the controlled relationships disclosed (even if there are no transactions between the enterprises)? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
5. Are combined financial statements considered for entities under common control? [ARB 51, pars. 22 and 23 (AC C51.121 and .122)]	_____	_____	_____

#### T. Research and Development Arrangements

1. If the reporting entity accounts for its obligations under research and development arrangements as contracts to perform research and development for others in accordance with SFAS 68, are the following disclosed:			
a. The terms of significant agreements under the research and development arrangements (including royalty arrangements, purchase provisions, license agreements, and commitments to provide additional funding) as of the date of each balance sheet presented?	_____	_____	_____
b. The amount of compensation earned and costs incurred under such contracts for each period for which an income statement is presented? [SFAS 68, par. 14 (AC R55.112)]	_____	_____	_____

#### U. Exit or Disposal Activities

**Note:** SFAS 146, *Accounting for Costs Associated With Exit or Disposal Activities*, is effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 nullifies EITF 94-3. For the purposes of SFAS 146, an exit or disposal activity is initiated when management, having the authority to approve the action, commits to an exit or disposal plan or otherwise disposes of a long-lived asset (disposal group) and, if the activity involves the termination of employees, the criteria for a plan of termination in paragraph 8 of SFAS 146 are met. The provisions of EITF 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF 94-3 prior to SFAS 146's initial application.

If SFAS 146 is not effective, consider Questions 1–3 below. If SFAS 146 is effective, consider Questions 4–8 below instead.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, <i>Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)</i> , are the following disclosures made in all periods until the plan of termination is completed:			
a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?	_____	_____	_____
b. The number of employees to be terminated?	_____	_____	_____
c. A description of the employee group(s) to be terminated?	_____	_____	_____
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?	_____	_____	_____
e. The amount of any adjustment(s) to the liability? [EITF 94-3, Section A]	_____	_____	_____
2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:			
a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?	_____	_____	_____
b. No disclosure made on the face of the income statement for earnings per share effect?	_____	_____	_____
c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income? [EITF 94-3, Section B]	_____	_____	_____
3. If the activities that will not be continued are significant to the reporting entity's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:			
a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?	_____	_____	_____
b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?	_____	_____	_____
c. A description of the type and amount of exit costs paid and charged against the liability?	_____	_____	_____
d. The amount of any adjustment(s) to the liability?	_____	_____	_____
e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]	_____	_____	_____
4. Is the following information disclosed in notes to the financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:			
a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):			
(1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date?	_____	_____	_____
(2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) therefor?	_____	_____	_____
c. The line item(s) in the income statement in which the costs in <i>b.</i> above are aggregated?	_____	_____	_____
d. For each reportable segment:			
(1) The total amount of costs expected to be incurred in connection with the activity?	_____	_____	_____
(2) The amount incurred in the period?	_____	_____	_____
(3) The cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor?	_____	_____	_____
e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons therefor? [SFAS 146, par. 20 (AC L32.120)]	_____	_____	_____
5. Are costs associated with an exit or disposal activity that does not involve a discontinued operation included in income from continuing operations before income taxes, for example, in a subtotal such as "income from operations"? [SFAS 146, par. 18 (AC L32.118)]	_____	_____	_____
6. Are costs associated with an exit or disposal activity that involves a discontinued operation included in the results of discontinued operations? [SFAS 146, par. 18 (AC L32.118)]	_____	_____	_____
7. If an event or circumstance occurs that discharges or removes an entity's responsibility to settle a liability for a cost associated with an exit or disposal activity recognized in a prior period, is the liability reversed? [SFAS 146, par. 19 (AC L32.119)]	_____	_____	_____
8. Are the related costs reversed through the same line item(s) in the income statement used when those costs were recognized initially? [SFAS 146, par. 19 (AC L32.119)]	_____	_____	_____

## V. Segment Information

1. Are the factors used to identify the reporting entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the reporting entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated) disclosed? [SFAS 131, par. 26 (AC F30.125)]	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are the types of products and services from which each reportable segment derives its revenues disclosed? [SFAS 131, par. 26 (AC F30.125)]	_____	_____	_____
3. Has a measure of profit or loss and total assets been reported for each reportable segment? [SFAS 131, par. 27 (AC F30.126)]	_____	_____	_____
4. If the following specified amounts ( <i>a</i> ) are included in the measure of segment profit or loss reviewed by the chief operating decision maker or ( <i>b</i> ) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss, are they disclosed for each reportable segment:			
(1) Revenues from external customers?	_____	_____	_____
(2) Revenues from transactions with other operating segments of the reporting entity?	_____	_____	_____
(3) Interest revenue?	_____	_____	_____
(4) Interest expense?	_____	_____	_____
(5) Depreciation, depletion, and amortization expense?	_____	_____	_____
(6) Unusual items as described in paragraph 26 of APB 30?	_____	_____	_____
(7) Equity in the net income of investees accounted for by the equity method?	_____	_____	_____
(8) Income tax expense or benefit?	_____	_____	_____
(9) Extraordinary items?	_____	_____	_____
(10) Significant noncash items other than depreciation, depletion, and amortization expense? [SFAS 131, par. 27 (AC F30.126)]	_____	_____	_____
5. If the following specified amounts are ( <i>a</i> ) included in the determination of segment assets reviewed by the chief operating decision maker or ( <i>b</i> ) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment assets, are they disclosed for each reportable segment:			
(1) The amount of investment in equity method investees?	_____	_____	_____
(2) Total expenditures for additions to long-lived assets other than financial instruments and deferred tax assets? [SFAS 131, par. 28 (AC F30.127)]	_____	_____	_____
6. Is an explanation of the measurements of segment profit or loss and segment assets that discloses the following for each reportable segment provided:			
<i>a.</i> The basis of accounting for any transactions between reportable segments?	_____	_____	_____
<i>b.</i> The nature of any differences between the reporting entity's consolidated income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principle?	_____	_____	_____
<i>c.</i> The nature of any differences between the measurements of the reportable segments' assets and the reporting entity's consolidated assets?	_____	_____	_____
<i>d.</i> The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. The nature and effect of any asymmetrical allocations to segments? [SFAS 131, par. 31 (AC F30.130)]	_____	_____	_____
7. Are reconciliations of the totals of the reportable segments' revenues, measures of profit or loss, assets, and every other significant item of information disclosed to corresponding consolidated amounts presented with all significant reconciling items separately identified and described? [SFAS 131, par. 32 (AC F30.131)]	_____	_____	_____
8. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments, is the corresponding information for prior periods restated and is the fact that the corresponding items of segment information for earlier periods have been restated disclosed? [SFAS 131, par. 34 (AC F30.133)]	_____	_____	_____
9. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments and the corresponding information for prior periods is not restated, does disclosure in the year in which the change occurs include segment information for the current period under both the old basis and the new basis? [SFAS 131, par. 35 (AC F30.134)]	_____	_____	_____
10. For all reporting entities subject to SFAS 131, including those that have a single reportable segment, are the following enterprise-wide items disclosed:			
a. Revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so? [SFAS 131, par. 37 (AC F30.136)]	_____	_____	_____
b. The following geographic information unless it is impracticable to do so:			
(1) Revenues from external customers (a) attributed to the reporting entity's country of domicile and (b) attributed to all foreign countries in total from which the reporting entity derives revenue?	_____	_____	_____
(2) Revenues from external customers attributed to an individual foreign country, if material?	_____	_____	_____
(3) The basis for attributing revenues from external customers to individual countries?	_____	_____	_____
(4) Long-lived assets other than financial instruments and deferred tax assets (a) located in the reporting entity's country of domicile and (b) located in all foreign countries in total in which the reporting entity holds assets?	_____	_____	_____
(5) Long-lived assets as described above in an individual foreign country, if material? [SFAS 131, par. 38 (AC F30.137)]	_____	_____	_____
c. Information about the extent of the reporting entity's reliance on its major customers, including the following:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) If revenues from transactions with any single customer amount to 10 percent or more of the reporting entity's revenues, that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenue? [SFAS 131, par. 39 (AC F30.138)]	_____	_____	_____
11. If the information described in Questions 10a and b above has not been disclosed because it is impracticable, is that fact disclosed? [SFAS 131, pars. 37 and 38 (AC F30.136 and .137)]	_____	_____	_____

### W. Stock Compensation Plans

1. Has the entity disclosed the following information in the "Summary of Significant Accounting Policies" or its equivalent:
  - a. The method used—either the intrinsic value method or the fair value based method—to account for stock-based employee compensation in each period presented?
  - b. For an entity that adopts the fair value recognition provisions of SFAS 123, for all financial statements in which the period of adoption is presented, is there a description of the method of reporting the change in accounting principle?
  - c. If awards of stock-based employee compensation were outstanding and accounted for under the intrinsic value method of APB 25 for any period for which an income statement is presented, is there a tabular presentation of the following information for all periods presented:
    - (1) Net income and basic and diluted earnings per share as reported?
    - (2) The stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported?
    - (3) The stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards?
    - (4) Pro forma net income as if the fair value based method had been applied to all awards?
    - (5) Pro forma basic and diluted earnings per share as if the fair value based method had been applied to all awards?
 [SFAS 123, par. 45, as amended by SFAS 148]
2. Does the required pro forma amounts reflect the difference in stock-based employee compensation cost, if any, included in net income and the total cost measured by the fair value based method, as well as additional tax effects, if any, that would have been recognized in the income statement if the fair value based method had been applied to all awards?  
[SFAS 123, par. 45, as amended by SFAS 148]
3. Does the required pro forma per share amounts reflect the change in the denominator of the diluted earnings per share calculation as if the assumed proceeds under the treasury stock method, including measured but unrecognized compensation cost and the excess tax benefits

<u>Yes</u>	<u>No</u>	<u>N/A</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
credited to additional paid-in capital, were determined under the fair value based method? [SFAS 123, par. 45, as amended by SFAS 148]	_____	_____	_____
4. Is a description of the plan(s), including the general terms of awards under the plan(s) disclosed? [SFAS 123, par. 46 (AC C36.145)]	_____	_____	_____
5. Are the following disclosed for each year for which an income statement is presented:			
a. The number and weighted-average exercise prices of options for each of the following groups of options:			
(1) Those outstanding at the beginning of the year?	_____	_____	_____
(2) Those outstanding at the end of the year?	_____	_____	_____
(3) Those exercisable at the end of the year?	_____	_____	_____
(4) Those granted during the year?	_____	_____	_____
(5) Those exercised during the year?	_____	_____	_____
(6) Those forfeited during the year?	_____	_____	_____
(7) Those expired during the year?	_____	_____	_____
b. The weighted-average grant-date fair value of options granted during the year? ( <i>Note:</i> That if the exercise prices of some options differ from the market price of the stock on the grant date, weighted-average fair values of options shall be disclosed separately for options whose exercise price (1) equals, (2) exceeds, or (3) is less than the market price of the stock on the grant date.)	_____	_____	_____
c. The number and weighted-average grant date-fair value of equity instruments other than options granted during the year?	_____	_____	_____
d. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information: (1) risk-free interest rate, (2) expected life, (3) expected volatility, and (4) expected dividends?	_____	_____	_____
e. Total compensation cost recognized in income for stock-based employee compensation awards?	_____	_____	_____
f. The terms of significant modifications of outstanding awards? [SFAS 123, par. 47a-f (AC C36.146)]	_____	_____	_____
6. If the reporting entity grants options under multiple stock-based employee compensation plans, are the items in Question 3 above disclosed separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the reporting entity's use of stock-based compensation? [SFAS 123, par. 47 (AC C36.146)]	_____	_____	_____
7. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:			
a. The range of exercise prices?	_____	_____	_____
b. The weighted-average exercise price?	_____	_____	_____
c. The weighted-average remaining contractual life? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. If the range of exercise prices is wide (the highest exercise price exceeds approximately 150 percent of the lowest exercise price), are the exercise prices segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises and are the following disclosed for each range:			
a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?	_____	_____	_____
b. The number and weighted-average exercise price of options currently exercisable? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____
9. For bonus arrangements issued in connection with the grant of stock compensation awards, is any amount recognized as a bonus liability during the service period that exceeds the ultimate bonus paid to the employee reclassified to equity? [EITF 00-23]	_____	_____	_____
10. Is the accounting policy for recognizing compensation cost related to fixed stock awards with pro rata vesting disclosed? [EITF 00-23]	_____	_____	_____
11. Are changes in fair value of an option award granted to employees, in unrestricted, publicly traded shares of an unrelated entity prior to vesting characterized as compensation expense in the employer's income statement? [EITF 02-8]	_____	_____	_____
<b>X. Subsequent Events</b>			
1. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, disclosed? [SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05-.07, .09, and 561.01-.10 (AU 560.05-.07, .09, and 561.01-.10)]	_____	_____	_____
<b>Y. Transfers and Servicing of Financial Assets and Securitizations</b>			
1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? [SFAS 140, par. 17a (AC F39.110a)]	_____	_____	_____
2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 140, par. 17d (AC F39.110b)]	_____	_____	_____
3. For all servicing assets and servicing liabilities are the following disclosures made:			
a. The amounts of servicing assets or liabilities recognized and amortized during the period?	_____	_____	_____
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140?	_____	_____	_____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 140, par. 17e (AC F35.102A)]	_____	_____	_____
4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	_____	_____	_____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?	_____	_____	_____
c. The key assumptions* used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	_____	_____	_____
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?	_____	_____	_____
5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:			
a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	_____	_____	_____
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	_____	_____	_____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that	_____	_____	_____

\* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
is reported under (b) above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?	_____	_____	_____
d. For the securitized assets and any other financial assets that it manages together with them:*			
(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?	_____	_____	_____
(2) Delinquencies at the end of the period?	_____	_____	_____
(3) Credit losses, net of recoveries, during the period?	_____	_____	_____
Disclosure of average balances during the period is encouraged, but not required.			
[SFAS 140, par.17f–g (AC F39.110c–d)]			

**Collateral**

6. a. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented?	_____	_____	_____
[SFAS 140, par. 17a(2) (AC F39.110a)]			
b. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed?	_____	_____	_____
[SFAS 140, par. 17a(3) (AC F39.110a)]			
c. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed?	_____	_____	_____
[SFAS 140, par. 17(a)(3) (AC F39.110a)]			

**Z. Troubled Debt Restructurings—Creditors**

1. Is the amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings disclosed either in the body of the financial statements or in the notes thereto as of the date of each balance sheet presented?	_____	_____	_____
[SFAS 15, par. 40b (AC D22.145)]			

**For Restructurings in Fiscal Years Beginning Before December 16, 1994**

2. For outstanding receivables whose terms have been modified in troubled debt restructurings, are the following disclosed by major category either in the body of the financial statements or the notes thereto as of the date of each balance sheet presented:			
a. The aggregate recorded investment?	_____	_____	_____
b. The gross interest income that would have been recorded in the period then ended if those receivables had been current in accordance with their original terms and had been outstanding throughout the period or since origination?	_____	_____	_____

\* Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. The amount of interest income on those receivables that was included in net income for the period?<br>[SFAS 15, par. 40a (AC D22.145)] | _____      | _____     | _____      |

(See the *Financial Instruments* and *Impaired Loans* sections for possible additional disclosure requirements.)

#### AA. Troubled Debt Restructurings—Debtors

- |   |       |       |       |
|---|-------|-------|-------|
| 1. For a troubled debt restructuring occurring during the current period, do disclosures include:   |       |       |       |
| a. A description of the principal changes in terms, the major features of settlement, or both?  | _____ | _____ | _____ |
| b. Aggregate gain on restructuring of payables?   | _____ | _____ | _____ |
| c. Aggregate net gain or loss on transfers of assets recognized during the period?  | _____ | _____ | _____ |
| d. Per-share amount of the aggregate gain on restructuring of payables?<br>[SFAS 15, par. 25, as amended by SFAS 145 (AC D22.121)]                                  | _____ | _____ | _____ |
| 2. For periods after a troubled debt restructuring, do disclosures include:   |       |       |       |
| a. The extent to which amounts contingently payable are included in the carrying amount of restructured payables?   | _____ | _____ | _____ |
| b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?<br>[SFAS 15, par. 26 (AC D22.122)] | _____ | _____ | _____ |

#### BB. Asset Retirement Obligations

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Does the company disclose the following information about its asset retirement obligations:  |       |       |       |
| a. A general description of the asset retirement obligations and the associated long-lived assets?  | _____ | _____ | _____ |
| b. The fair value of assets that are legally restricted for purposes of settling asset retirement obligations?  | _____ | _____ | _____ |
| c. A reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations showing separately the changes attributable to (1) liabilities incurred in the current period, (2) liabilities settled in the current period, (3) accretion expense, and (4) revisions in estimated cash flows, whenever there is a significant change in one or more of those four components during the reporting period?<br>[SFAS 143, par. 22 (AC A50.122)] | _____ | _____ | _____ |
| 2. If the fair value of an asset retirement obligation cannot be reasonably estimated is that fact and the reasons therefore disclosed?<br>[SFAS 143, par. 22 (AC A50.122)]   | _____ | _____ | _____ |
| 3. In addition to the disclosures required by paragraphs 19c, 19d, and 21 of APB 20, is the liability for the asset retirement obligation computed on a pro forma basis disclosed in the footnotes for the beginning of the earliest year presented and at the end of all years presented as if SFAS 143 had been applied during all periods affected?<br>[SFAS 143, par. 27]   | _____ | _____ | _____ |

# FSP Section 6200

## Auditors' Reports Checklist

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. Is each financial statement audited specifically identified in the introductory paragraph of the auditor's report?<br>[SAS 58, par. 6 (AU 508.06)]  | _____      | _____     | _____      |
| 2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented?<br>[Generally Accepted] | _____      | _____     | _____      |
| 3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented?<br>[Generally Accepted]   | _____      | _____     | _____      |
| 4. Is the report appropriately addressed?<br>[SAS 58, par. 9 (AU 508.09)]  | _____      | _____     | _____      |

The following table identifies the address mentioned in the independent Auditor's Report for 600 public companies surveyed by the AICPA, Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Board of Directors and Stockholders	500	462	468	471	469
Stockholders	31	43	45	47	49
Board of Directors	53	43	40	42	45
Company	10	47	42	35	31
Other or no address	6	5	5	5	6
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

- |  |       |       |       |
|--|-------|-------|-------|
| 5. Does the auditor's report include appropriate:  |       |       |       |
| a. A title that includes the word "independent"?<br>[SAS 58, par. 8a (AU 508.08a)]   | _____ | _____ | _____ |
| b. A statement that the financial statements identified in the report were audited?<br>[SAS 58, par. 8b (AU 508.08b)]  | _____ | _____ | _____ |
| c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit?<br>[SAS 58, par. 8c (AU 508.08c)]  | _____ | _____ | _____ |
| d. <b>(Audits of Non-Public Companies Only)</b> A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards)?<br>[SAS 58, par. 8d as amended by SAS 93 (AU 508.08d)] | _____ | _____ | _____ |
| e. <b>(Audits of Public Companies Only)</b> A statement that the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States)?<br>[PCAOB Auditing Standard No. 1, Appendix, par. 3]   | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
i. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? The opinion should include an identification of the United States of America as the country of origin of those accounting principles. [SAS 58, par. 8h as amended by SAS 93 (AU 508.08h)]	_____	_____	_____
j. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____
k. The date of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

#### Practice Tip

Paragraph 8 of SAS 58 illustrates the form of the auditor's standard report on financial statements covering a single year and on comparative financial statements.

The following table identifies the location of the independent Auditor's Report in relation to the financial statements and notes for 600 public companies surveyed by the AICPA, Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Follows financial statements and notes	250	283	294	319	357
Precedes financial statements and notes	343	309	296	259	228
Between financial statements and notes	6	4	5	16	7
Other	1	4	5	6	8
<b>Total Companies</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the related financial statements, has the need for dual-dating of the report been considered?  
[SAS 1, sec. 530, as amended by SAS 98 pars. 3–5 (AU 530.03–.05)]
7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)?  
[SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. If the opinion is based in part on the report of another auditor:			
<i>a.</i> Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
<i>b.</i> Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____
10. If there is substantial doubt about the entity's ability to continue as a going concern:			
<i>a.</i> Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
<i>b.</i> Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

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### Practice Tip

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 (AU 341.13) for an example.

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11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
<i>a.</i> Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
<i>b.</i> Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____
<i>c.</i> If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? ( <i>Note:</i> A change in the reporting entity resulting from a transaction or event, such as a pooling of interests, or the creation, cessation, or complete or partial purchase or disposition of a subsidiary or other business unit, does not require that an explanatory paragraph about consistency be included in the auditor's report.) [SAS 88, par. 8, AU 420.08]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____
13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
14. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if the prior period's financial statements are audited by a predecessor auditor who has ceased operations? [AU 9508.60-.74]	_____	_____	_____
15. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? [SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.43)]	_____	_____	_____
16. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8, as amended by SAS 98 (AU 558.08)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
17. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
18. If certain other information has been subjected to auditing procedures applied in the audit of the basic financial statements, does the auditor express an opinion on whether the information is fairly stated in all material respects in relation to those financial statements taken as a whole in the auditor's report describing clearly the character of the auditor's work and the degree of responsibility the auditor is taking? [SAS 8, par. 7, as amended by SAS 98 (AU 550.07); SAS 52, par. 9, as amended by SAS 98 (AU 558.09)]	_____	_____	_____
19. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
20. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]	_____	_____	_____
21. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> ?	_____	_____	_____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]	_____	_____	_____

### Practice Tip

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements.

[SAS 58, as amended by SAS 79, par. 31]

**Note:** Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
22. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the report avoid identifying procedures that were performed?	_____	_____	_____
d. Is the scope paragraph omitted?	_____	_____	_____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]	_____	_____	_____
23. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
24. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
25. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____

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**Note:** Consult the Topical Index to the AICPA *Professional Standards* under "Departures From Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
26. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identifies the accompanying information?	_____	_____	_____
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	_____	_____	_____

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**Practice Tip**

SAS 87, *Restricting the Use of an Auditor's Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

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# FSP Section 6300

## *Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist*

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Part I—If the Accountant is Engaged to Report on Compiled Financial Statements or Submits Financial Statements to a Client that Are or Reasonably Might Be Expected to Be Used by a Third Party</b>			
1. Does the compilation report include the following basic elements:			
a. A statement that the compilation has been performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants?	_____	_____	_____
b. A statement that the compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)?	_____	_____	_____
c. A statement that the financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them?	_____	_____	_____
d. A signature of the accounting firm or the accountant as appropriate (for example, the signature could be manual, stamped, electronic, or typed)?	_____	_____	_____
e. The date of the compilation report (the date of completion of the compilation report should be used as the date of the accountant's report)? [SSARS 1, par. 11, as amended by SSARS 9 (AR 100.11)]	_____	_____	_____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, par. 11, as amended by SSARS 9 (AR 100.11)]	_____	_____	_____
3. For compiled financial statements that contain departures <sup>1</sup> from generally accepted accounting principles (GAAP) or, where applicable, an other comprehensive basis of accounting (OCBOA):			
a. If the departure is the omission of substantially all required disclosures, does the accountant's report clearly indicate such omission? [SSARS 1, pars. 16 and 18 (AR 100.16 and .18)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a few matters, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by GAAP (or OCBOA) Are Not Included"? [SSARS 1, par. 16 (AR 100.16)]	_____	_____	_____

<sup>1</sup> Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 (AR 300) compilation report on financial statements included in a prescribed form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. If statements that omit substantially all required disclosures are prepared on a basis of accounting other than GAAP, and if such statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? [SSARS 1, par. 17 (AR 100.17)]	_____	_____	_____

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**Practice Tip**

SAS 62, paragraphs 9 and 10 (AU 623.09 and .10), provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with an other comprehensive basis of accounting.

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d. If the financial statements contain a departure from GAAP or an OCBOA, is the report modified to disclose the departure? [SSARS 1, pars. 41 and 42 (AR 100.41 and .42)]	_____	_____	_____
(1) If the effects of the departure on the financial statements are determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 42 (AR 100.42)]	_____	_____	_____
(2) If the effects are not determined, is this fact stated in the accountant's report? [SSARS 1, par. 42 (AR 100.42)]	_____	_____	_____
4. If the accountant is not independent with respect to the entity for which financial statements are compiled, does the compilation report state "I am (we are) not independent with respect to XYZ Company"? [SSARS 1, par. 19 (AR 100.19)]	_____	_____	_____
5. Does each page of the financial statements include a reference such as "See Accountant's Compilation Report"? [SSARS 1, par. 13, as amended by SSARS 9 (AR 100.13)]	_____	_____	_____
6. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 42, fn. 23 (AR 100.42, fn. 23)]	_____	_____	_____
7. If the basic financial statements are accompanied by information presented for supplementary analysis purposes, does the accountant clearly indicate the degree of responsibility, if any, he or she is taking with respect to such information? [SSARS 1, par. 45 (AR 100.45)]	_____	_____	_____
8. When the accountant compiles both the basic financial statements and other data presented only for supplementary analysis purposes, does the compilation report refer to the other data or is a separate report on the other data issued?	_____	_____	_____
9. If a separate report on the other data is issued, does the report state that:			
a. The other data accompanying the financial statements are presented only for supplementary analysis purposes?	_____	_____	_____
b. The information has been compiled from information that is the representation of management, without audit or review?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The accountant does not express an opinion or any other form of assurance on such data? [SSARS 1, par. 45, as amended by SSARS 9 (AR 100.45)]	_____	_____	_____
10. If an audit engagement is changed to a review or compilation, does the report omit reference to:			
a. The original engagement?	_____	_____	_____
b. Any auditing or review procedures that may have been performed?	_____	_____	_____
c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 51 (AR 100.51)]	_____	_____	_____
11. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
12. If compiled financial statements that omit substantially all of the disclosures required by GAAP are included among the comparative financial statements, do all the periods presented also omit such disclosures? [SSARS 2, par. 5 (AR 200.05)]	_____	_____	_____
a. If the prior-period financial statements do not omit the required disclosures, and the accountant is requested to compile statements for the same period that do omit those disclosures, does the accountant's compilation report include an additional paragraph that indicates:			
(1) The nature of the previous service rendered (compilation, review, or audit)?	_____	_____	_____
(2) Date of the previous report? [SSARS 2, pars. 29 and 30 (AR 200.29 and .30)]	_____	_____	_____
13. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the continuing accountant's report on the prior period updated? [SSARS 2, par. 8 (AR 200.08)]	_____	_____	_____
14. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8, 11, and 12 (AR 200.08, .11, and .12)]	_____	_____	_____
15. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph include the appropriate language? [SSARS 2, pars. 14 and 15 (AR 200.14 and .15)]	_____	_____	_____
16. If the current-period financial statements were compiled and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language? [SSARS 2, par. 28 (AR 200.28)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Predecessor's Compilation Report</b>			
17. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:			
a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs 17–19 of SSARS 2?	_____	_____	_____
or			
b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16–19 (AR 200.16–.19)]	_____	_____	_____
18. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25 and 26 (AR 200.25 and .26)]	_____	_____	_____

**Part II—If the Accountant Submits Financial Statements To a Client that Are Not Reasonably Expected To Be Used by a Third Party**

19. Has one of the following two options been performed:			
a. Issue a compilation report in accordance with the reporting requirements discussed in AR section 100.11–.19 and therefore comply with the requirements of Part I of this checklist?	_____	_____	_____
b. Document an understanding with the entity through the use of an engagement letter, preferably signed by management, regarding the services to be performed and the limitations on the use of those financial statements? [SSARS 8, par. 20 (AR 100.20)]	_____	_____	_____
20. If the option to document an understanding is followed, does the documentation of the understanding include the following descriptions or statements:			
a. The nature and limitations of the services to be performed?	_____	_____	_____
b. A compilation is limited to presenting in the form of financial statements information that is the representation of management?	_____	_____	_____
c. The financial statements will not be audited or reviewed?	_____	_____	_____
d. No opinion or any other form of assurance on the financial statements will be provided?	_____	_____	_____
e. Management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements.	_____	_____	_____
f. Acknowledgement of management's representation and agreement that the financial statements are not to be used by third parties.	_____	_____	_____
g. The engagement cannot be relied upon to disclose errors, fraud, or illegal acts. [SSARS 8, par. 21 (AR 100.21)]	_____	_____	_____
21. If applicable, does the documentation of the understanding address the following matters:			
a. Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Substantially all disclosures (and statement of cash flows, if applicable) required by GAAP or OCBOA may be omitted?	_____	_____	_____
c. Lack of independence?	_____	_____	_____
d. Refer to supplementary information? [SSARS 8, par. 21 (AR 100.21)]	_____	_____	_____
22. Is a reference included on each page of the financial statements restricting their use such as "Restricted for Management's Use Only," or "Solely for the information and use by the management of [name of entity] and not intended to be and should not be used by any other party."? [SSARS 8, par. 22 (AR 100.22)]	_____	_____	_____

### Part III—For Review Engagements

**Note:** An accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he or she is not independent.

[SSARS 1, par. 40 (AR 100.40)]

1. Does the review report include the following basic elements:
  - a. A statement that the review has been performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants? \_\_\_\_\_
  - b. A statement that all information included in the financial statements is the representation of the management (owners) of the entity? \_\_\_\_\_
  - c. A statement that a review consists principally of inquiries of company personnel and analytical procedures applied to financial data? \_\_\_\_\_
  - d. A statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed? \_\_\_\_\_
  - e. A statement that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles, other than those modifications, if any, indicated in the report? \_\_\_\_\_
  - f. A signature of the accounting firm or the accountant as appropriate (for example, the signature could be manual, stamped, electronic, or typed)? \_\_\_\_\_
  - g. The date of the review report (the date of completion of the accountant's review procedures should be used as the date of the accountant's report)?  
[SSARS 1, par. 34, as amended by SSARS 9 (AR 100.34)] \_\_\_\_\_
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement?  
[SSARS 1, par. 34, as amended by SSARS 9 (AR 100.34)] \_\_\_\_\_



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For reviewed financial statements that contain departures from GAAP or, where applicable, OCBOA (including the omission of required disclosures), is the report modified to disclose the departure in a separate paragraph? [SSARS 1, pars. 41 and 42 (AR 100.41 and .42)]	_____	_____	_____
4. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 42, fn. 23 (AR 100.42, fn. 23)]	_____	_____	_____
5. Does each page of the financial statements include a reference such as "See Accountant's Review Report"? [SSARS 1, par. 36, as amended by SSARS 9 (AR 100.36)]	_____	_____	_____
6. When the basic financial statements are accompanied by information presented for supplementary analysis purposes, does the accountant clearly indicate the degree of responsibility, if any, he or she is taking with respect to such information?	_____	_____	_____
7. When the accountant has reviewed the basic financial statements, has an explanation been included in the review report, or in a separate report on the other data; and does the report state that:			
a. The review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformance with generally accepted accounting principles?	_____	_____	_____
b. And either:			
(1) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements and the accountant did not become aware of any material modifications that should be made to such data?	_____	_____	_____
or			
(2) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review and the accountant does not express an opinion or any other form of assurance on such data? [SSARS 1, par. 45, as amended by SSARS 9 (AR 100.45)]	_____	_____	_____
8. If the client does not provide a representation letter, does the accountant consider whether it is appropriate to issue a compilation report? [SSARS 7, par. 49 (AR 100.49)]	_____	_____	_____
9. If an audit engagement is changed to a review, does the report omit reference to:			
a. The original engagement?	_____	_____	_____
b. Any auditing or review procedures that may have been performed?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 51 (AR 100.51)]	_____	_____	_____
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
11. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the continuing accountant's report on the prior period updated? [SSARS 2, pars. 8–10 (AR 200.08–.10)]	_____	_____	_____
12. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8, 11, and 12 (AR 200.08, .11 and .12)]	_____	_____	_____
13. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph include the appropriate language? [SSARS 2, pars. 14 and 15 (AR 200.14 and .15)]	_____	_____	_____
14. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25 and 26 (AR 200.25 and .26)]	_____	_____	_____
15. If the current-period financial statements were reviewed and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language? [SSARS 2, par. 28 (AR 200.28)]	_____	_____	_____

**Predecessor's Review Report**

16. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:			
a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs 17–19 of SSARS 2?	_____	_____	_____
or			
b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16–19 (AR 200.16–.19)]	_____	_____	_____

# FSP Section 6400

## *Illustrative Financial Statement Formats*

.01 Generally accepted accounting principles (GAAP) do not require that specific formats be used in the presentation of financial statements. Nonetheless, several formats have come to represent common practice among financial statement preparers. The model illustrative financial statement formats included in this section do not represent comprehensive formats for all situations, but rather are general guidelines that may be tailored to fit the requirements of a wide variety of individual circumstances and situations.

### Basic Financial Statements

.02 The minimum financial statement presentation required to present fairly a company's financial position, results of operations, and cash flows in conformity with GAAP is outlined in Statement on Auditing Standards (SAS) No. 29,\* *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, as amended. According to SAS No. 29, the basic financial statements that are generally covered by an auditor's report include:

- a balance sheet
- a statement of income
- a statement of retained earnings or changes in stockholders' equity
- a statement of cash flows
- description of accounting policies
- notes to financial statements
- schedules and explanatory material that are identified as being part of the basic financial statements. (Schedules and explanatory material may be considered either as part of the basic financial statements or as supplementary information.)

### The Balance Sheet

.03 **Title.** The companies surveyed in the AICPA's *Accounting Trends & Techniques* generally use the title "balance sheet" for the statement showing assets, liabilities, and stockholder's equity. Other titles frequently used by those companies include "statement of financial position" and "statement of financial condition."

.04 **Balance Sheet Format.** Commonly used balance sheet formats include the account form, the report form, and the financial position form. The account form shows total assets on the left-hand side equal to the sum of liabilities and equity on the right-hand side. The report form shows a downward sequence of either total assets minus total liabilities equal to equity or total assets equal to total liabilities plus equity. The financial position form, a variation of the report form, shows noncurrent assets added to and noncurrent liabilities deducted from working capital to arrive at a balance equal to equity.

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\* In September 2002, the Auditing Standards Board (ASB) issued SAS No. 98, *Omnibus Statement on Auditing Standards—2002*, which among other matters amends SAS No. 29 by clarifying the reporting guidance with respect to required supplementary information.

.05 The following table summarizes the balance sheet format used by 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

**Balance Sheet Format**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Report form . . . . .	507	494	502	477	465
Account form. . . . .	92	105	97	122	134
Financial position form . . . . .	1	1	1	1	1
<b>Total Companies . . . . .</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

.06 Examples of the account form and financial position form of balance sheet are included as Exhibits 1 and 2 of this section.

## Statement of Income

.07 **Title.** The companies surveyed for *Accounting Trends & Techniques* generally use the term "income" in the title of their presentations of the results of operations. Another term used by companies is "earnings." The Securities and Exchange Commission (SEC) requires the word "operations" in the title when there is a loss in the current period.

.08 **Income Statement Format.** Commonly used income statement formats include the single-step form and the multi-step form. The single-step format groups the components of net income into two categories: (1) revenues and gains and (2) expenses and losses. The difference between the two subtotals is net income or loss for the period. The multiple-step format shows various intermediate components of net income. Generally, operating results are presented separately from nonoperating results (e.g., costs and expenses are deducted from sales followed by nonoperating revenues, gains, expenses, and losses, and are grouped by type or function). Intermediate components of net income that are frequently presented in multiple-step statements are gross profit, income from operations, and other income and expenses.

.09 The following table summarizes the income statement format used by 600 public companies surveyed by the AICPA. Reprinted from the AICPA's *Accounting Trends & Techniques*, 2003, Fifty-seventh Edition.

**Income Statement Format**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>Single-Step Form:</b>					
Income tax shown as separate last item . . . . .	156	153	134	166	156
Income tax listed among operating items. . . . .	—	—	—	—	1
<b>Multi-Step Form:</b>					
Costs and expenses deducted from sales to show operating income . . . . .	221	220	241	216	220
Costs deducted from sales to show gross margin. . . . .	223	227	225	218	223
<b>Total Companies . . . . .</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>	<b>600</b>

.10 Examples of the single-step and multiple-step income statement formats are included as Exhibits 3 and 4 of this section.

.11 **Comprehensive Income.** Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, requires that reporting entities report comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 does not require a specific format for the statement that presents comprehensive, but provides examples of

three different formats. Two such formats—one for a combined statement of income and comprehensive income and another for a separate statement of comprehensive income—are included as Exhibits 5 and 6 of this section.

## Statements of Retained Earnings or Stockholder's Equity

.12 Although separate statements of retained earnings and statements of stockholder's equity are common presentations for public companies, their use by nonpublic companies is much less frequent. Because of the less-complex capital structure of most nonpublic entities and the fact that their securities are not frequently transferred, many have found that the required disclosures can often be made without presenting separate statements. In most cases the only change in stockholder's equity of a nonpublic company is the change in retained earnings resulting from net income (or loss). That change can usually be adequately disclosed in the statement of income or in the balance sheet.

.13 When nonpublic companies do experience changes in other components of stockholder's equity (e.g., issuance of stock, purchase of treasury stock, and stock splits) disclosure is often made in the notes to the financial statements or in a separate statement of changes in stockholder's equity.

.14 An example of a combined statement of income and retained earnings is included as Exhibit 7 of this section.

.15 SFAS No. 130 provides examples of presentations of comprehensive income and its components in the statement of changes in equity.

## Statement of Cash Flows

.16 SFAS No. 95, *Statement of Cash Flows*, requires that a statement of cash flows be included as part of a full set of financial statements for all business enterprises that report both financial position and results of operations. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.

.17 A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities. Entities may report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method) or by reporting net cash flows from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). If the direct method is used, a reconciliation of net income and net cash flow from operating activities is required to be provided in a separate schedule.

.18 Examples of the statements of cash flow prepared using the indirect method and the direct method are included as Exhibits 8 and 9 of this section.

## Notes to Financial Statements

.19 Authoritative pronouncements mandate many types of disclosures but do not mandate the manner of presentation. Some disclosures are best presented in separate notes rather than in the basic financial statements. Descriptions of accounting policies and notes to financial statements are recognized in SAS No. 29 as components of the "basic financial statements" necessary for a fair presentation in accordance with generally accepted accounting principles. Thus, notes are an integral part of financial statements. They should be used to present material disclosures required by generally accepted accounting principles that are not otherwise presented on the face of the statements.

**Exhibit 1**  
**Account Form**

**ABC COMPANY**  
**Consolidated Balance Sheets**  
**December 31, 20\_\_ and 20\_\_**

	<u>20__</u>	<u>20__</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$XXX,XXX	\$XXX,XXX
Marketable securities (Note )	XXX,XXX	XXX,XXX
Notes and accounts receivable:		
Notes receivable, less unearned finance charges		
(20__—\$XXX,XXX; 20__—\$XXX,XXX)	XXX,XXX	XXX,XXX
Accounts receivable	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Less: Allowance for doubtful accounts	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Inventories, at lower of average cost or market:		
Finished goods	XXX,XXX	XXX,XXX
Work in process	XXX,XXX	XXX,XXX
Raw materials and supplies	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Prepaid expenses	XXX,XXX	XXX,XXX
Total current assets	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Investment in affiliated company at cost plus equity in		
undistributed earnings since acquisition	XXX,XXX	XXX,XXX
Cash surrender value of life insurance	XXX,XXX	XXX,XXX
Property, plant, and equipment, at cost:		
Land	XXX,XXX	XXX,XXX
Buildings	XXX,XXX	XXX,XXX
Machinery, equipment, and furniture and fixtures	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Less: Accumulated depreciation (Note )	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Goodwill	XXX,XXX	XXX,XXX
Patents	XXX,XXX	XXX,XXX
Other assets and deferred charges	XXX,XXX	XXX,XXX
	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>

(continued)

	<u>20__</u>	<u>20__</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable (Note )	\$XXX,XXX	\$XXX,XXX
Current portion of mortgage loan payable	XXX,XXX	XXX,XXX
Current portion of obligations under capital leases	XXX,XXX	XXX,XXX
Accounts payable—trade	XXX,XXX	XXX,XXX
Dividends payable	XXX,XXX	XXX,XXX
Income taxes payable (Notes )	XXX,XXX	XXX,XXX
Other accounts payable and accrued expenses	XXX,XXX	XXX,XXX
Total current liabilities	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Mortgage payable (Note )	XXX,XXX	XXX,XXX
Obligation under capital leases (Note )	XXX,XXX	XXX,XXX
Deferred income tax credits (Note )	XXX,XXX	XXX,XXX
Minority interest	XXX,XXX	XXX,XXX
Redeemable preferred stock (Note ): __% cumulative, no par value—XXX shares authorized; XXX shares issued and outstanding	XXX,XXX	XXX,XXX
Common stock, no par value—XXX shares authorized; XXX shares issued at stated value of \$XX a share	XXX,XXX	XXX,XXX
Capital in excess of stated value	XXX,XXX	XXX,XXX
Retained earnings	XXX,XXX	XXX,XXX
Accumulated other comprehensive income	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Less: XXX shares of common stock in treasury, at cost	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Commitments and contingent liabilities (Note )	<u>XXX,XXX</u>	<u>XXX,XXX</u>
	<u><u>\$XXX,XXX</u></u>	<u><u>\$XXX,XXX</u></u>

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**Exhibit 2**  
**Financial Position Format**

**ABC COMPANY**  
**Statement of Financial Position**  
**December 31, 20\_\_ and 20\_\_**

	<u>20__</u>	<u>20__</u>
Current Assets:		
Cash and cash equivalents	\$XXX,XXX	\$XXX,XXX
Marketable debt and equity securities (Note )	XXX,XXX	XXX,XXX
Notes and accounts receivable, less estimated doubtful accounts (Note )	XXX,XXX	XXX,XXX
Inventories (Note )	XXX,XXX	XXX,XXX
Prepaid expenses	XXX,XXX	XXX,XXX
Total current assets	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Less: Current liabilities:		
Notes and accounts payable and accrued expenses (Note )	XXX,XXX	XXX,XXX
Income taxes (Note )	XXX,XXX	XXX,XXX
Total current liabilities	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Working capital	XXX,XXX	XXX,XXX
Marketable equity securities (Note )	XXX,XXX	XXX,XXX
Equity in affiliated companies (Note )	XXX,XXX	XXX,XXX
Property, plant, and equipment, at cost less accumulated depreciation (Note )	XXX,XXX	XXX,XXX
Deferred charges and other assets	XXX,XXX	XXX,XXX
Working capital and other assets	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Deductions:		
Long-term debt (Note )	XXX,XXX	XXX,XXX
Minority interest in consolidated subsidiary companies	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Excess of assets over liabilities	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>
Shareholders' equity:		
Common stock, \$XX par value—authorized XXX shares; issued and outstanding XXX shares	\$XXX,XXX	\$XXX,XXX
Capital in excess of par value	XXX,XXX	XXX,XXX
Retained earnings	XXX,XXX	XXX,XXX
Accumulated other comprehensive income	XXX,XXX	XXX,XXX
Commitments and contingent liabilities (Note )	<u>XXX,XXX</u>	<u>XXX,XXX</u>



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**Exhibit 3**  
**Single-Step Income Statement**  
**ABC COMPANY**  
**Consolidated Statements of Income**

	<i>Year Ended December 31,</i>	
	<u>20__</u>	<u>20__</u>
Sales and other revenue:		
Net sales	\$XXX,XXX	\$XXX,XXX
Other income	XXX,XXX	XXX,XXX
Equity in net earnings of affiliate	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Cost and expenses:		
Cost of goods sold	XXX,XXX	XXX,XXX
Selling, general and administrative expenses	XXX,XXX	XXX,XXX
Depreciation and amortization	XXX,XXX	XXX,XXX
Interest expense	XXX,XXX	XXX,XXX
Provision for income taxes	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Net income	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>
Net income per share data:		
Basic	<u>\$    X.XX</u>	<u>\$    X.XX</u>
Diluted	<u>\$    X.XX</u>	<u>\$    X.XX</u>

**Exhibit 4**  
**Multi-Step Income Statement**

**ABC COMPANY**  
**Statements of Income**

	<i>Year Ended December 31,</i>	
	<u>20__</u>	<u>20__</u>
Net sales	\$XXX,XXX	\$XXX,XXX
Other operating revenue	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Cost of goods sold	XXX,XXX	XXX,XXX
Selling and administrative expenses	XXX,XXX	XXX,XXX
Depreciation and amortization	XXX,XXX	XXX,XXX
Other costs and operating expenses	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Income from operations	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Other income:		
Interest income	XXX,XXX	XXX,XXX
Miscellaneous other income	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Other deductions:		
Interest cost incurred and commitment fee on loans	XXX,XXX	XXX,XXX
Interest cost capitalized	(XXX,XXX)	(XXX,XXX)
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Income before income taxes	XXX,XXX	XXX,XXX
Provision for income taxes (Note )	XXX,XXX	XXX,XXX
Net income	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>
Earnings per common share (Note )	<u>\$ X.XX</u>	<u>\$ X.XX</u>

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Exhibit 5

Combined Statement of Income and Comprehensive Income

ABC COMPANY

Statement of Income and Comprehensive Income

Year Ended December 31, 20\_\_

Sales and other revenue:		
Net sales		\$XXX,XXX
Other income		<u>XXX,XXX</u>
		XXX,XXX
Cost and expenses:		
Cost of goods sold		XXX,XXX
Selling, general and administrative expenses		XXX,XXX
Depreciation and amortization		XXX,XXX
Interest expense		<u>XXX,XXX</u>
		XXX,XXX
Income from operations before tax		XXX,XXX
Provision for income taxes		<u>—</u>
		(XXX,XXX)
Income before extraordinary item and cumulative effect of accounting change		XXX,XXX
Extraordinary item, net of tax		<u>(XXX,XXX)</u>
Income before cumulative effect of accounting change		XXX,XXX
Cumulative effect of accounting change, net of tax		<u>(XXX,XXX)</u>
Net income		<u>XXX,XXX</u>
Other comprehensive income, net of tax:		
Foreign currency translation adjustments		XXX,XXX
Unrealized gains on securities		
Unrealized holding gains arising during period	\$XX,XXX	
Less: reclassification adjustment for gains included in net income	<u>(X,XXX)</u>	XX,XXX
Minimum pension liability adjustment		<u>(X,XXX)</u>
Other comprehensive income		<u>XX,XXX</u>
Comprehensive income		<u>\$ XX,XXX</u>

The components of other comprehensive income may be displayed before income taxes with one aggregate amount presented for the income tax expense (or benefit) relating to all a items of comprehensive income. In that case, the comprehensive income section (the portion of the statement following "net income") might appear as follows:

Other comprehensive income, before tax:		
Foreign currency translation adjustments		\$XX,XXX
Unrealized gains on securities		
Unrealized holding gains arising during period	\$XX,XXX	
Less: reclassification adjustment for gains included in net income	<u>(X,XXX)</u>	XX,XXX
Minimum pension liability adjustment		<u>(X,XXX)</u>
Other comprehensive income, before tax		XX,XXX
Provision for income taxes related to items of other comprehensive income		<u>(X,XXX)</u>
Other comprehensive income, net of tax		<u>\$XX,XXX</u>

## Exhibit 6

Separate Statement of Comprehensive Income

## ABC COMPANY

## Statement of Comprehensive Income

Year Ended December 31, 20\_\_

Net income		<u>\$XXX,XXX</u>
Other comprehensive income, net of tax		
Foreign currency translation adjustments		XXX,XXX
Unrealized gains on securities		
Unrealized holding gains arising during period	\$XXX,XXX	
Less: reclassification adjustment for gains included in net income	<u>(XXX,XXX)</u>	XXX,XXX
Minimum pension liability adjustment		<u>(XXX,XXX)</u>
Other comprehensive income		<u>XXX,XXX</u>
Comprehensive income		<u><u>\$XXX,XXX</u></u>

**Note:** As in Exhibit 5, the components of other comprehensive income may be displayed in the separate statement of comprehensive income before income taxes with one aggregate amount presented for the income tax expense (or benefit) relating to all a items of comprehensive income. In that case, the statement would appear as follows:

Net income		<u>\$XXX,XXX</u>
Other comprehensive income, before tax		
Foreign currency translation adjustments		XXX,XXX
Unrealized gains on securities		
Unrealized holding gains arising during period	\$XXX,XXX	
Less: reclassification adjustment for gains included in net income	<u>(XXX,XXX)</u>	XXX,XXX
Minimum pension liability adjustment		<u>(XXX,XXX)</u>
Other comprehensive income, before tax		<u>XXX,XXX</u>
Provision for income taxes related to items of other comprehensive income		<u>(XXX,XXX)</u>
Comprehensive income		<u><u>\$XXX,XXX</u></u>

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## Exhibit 7

Statement Income and Retained Earnings

## ABC COMPANY

## Statements of Income and Retained Earnings

	<i>Year Ended December 31,</i>	
	<u>20__</u>	<u>20__</u>
Net sales	\$XXX,XXX	\$XXX,XXX
Other income	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Costs and expenses:		
Cost of goods sold	XXX,XXX	XXX,XXX
Selling and administrative expenses	XXX,XXX	XXX,XXX
Depreciation and amortization	XXX,XXX	XXX,XXX
Research and development expenses	XXX,XXX	XXX,XXX
Interest expense (Note )	XXX,XXX	XXX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Income before income taxes	XXX,XXX	XXX,XXX
Provision for income taxes (Note )	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Income before equity in net earnings of affiliate	XXX,XXX	XXX,XXX
Equity in net earnings of affiliated companies (Note )	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Net income	XXX,XXX	XXX,XXX
Retained earnings at beginning of year	<u>XXX,XXX</u>	<u>XXX,XXX</u>
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Dividends declared:		
Convertible preferred stock (\$.XX per share)	(XXX,XXX)	(XXX,XXX)
Common stock (20__—\$.XX per share; 20__—\$.XX per share)	<u>(XXX,XXX)</u>	<u>(XXX,XXX)</u>
	(XXX,XXX)	(XXX,XXX)
Retained earnings at end of year	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>
Net income per common share—basic (Note )	<u>\$ X.XX</u>	<u>\$ X.XX</u>
Net income per common share—diluted (Note )	<u>\$ X.XX</u>	<u>\$ X.XX</u>

## Exhibit 8

Statement of Cash Flows—Direct Method

## ABC COMPANY

## Statement of Cash Flows

for the Year Ended December 31, 20\_\_

Cash flows from operating activities:		
Cash received from customers	\$ XXX,XXX	
Cash paid to suppliers and employees	(XXX,XXX)	
Dividend received from investee	XXX,XXX	
Interest received	XXX,XXX	
Interest paid (net of amount capitalized)	(XXX,XXX)	
Income taxes paid	(XXX,XXX)	
Insurance proceeds received	(XXX,XXX)	
Cash paid to settle lawsuit	(XXX,XXX)	
Net cash provided by operating activities		\$ XXX,XXX
Cash flows from investing activities:		
Proceeds from sale of plant and equipment	XXX,XXX	
Payment received on note receivable	XXX,XXX	
Capital expenditures	(XXX,XXX)	
Net cash used in investing activities		(XXX,XXX)
Cash flows from financing activities:		
Net borrowings under loan agreements	XXX,XXX	
Principle payments under capital lease obligation	(XXX,XXX)	
Proceeds from issuance of long-term debt	XXX,XXX	
Proceeds from issuance of common stock	XXX,XXX	
Dividends paid	(XXX,XXX)	
Net cash provided by financing activities		XXX,XXX
Net increase in cash and cash equivalents		XXX,XXX
Cash and cash equivalents at beginning of year		XXX,XXX
Cash and cash equivalents at end of year		<u>\$ XXX,XXX</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income		\$ XXX,XXX
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ XXX,XXX	
Provision for losses on trade accounts receivable	XXX,XXX	
Gain on sale of plant and equipment	(XXX,XXX)	
Undistributed earnings of investee	(XXX,XXX)	
Payment received on installment note receivable for sale of inventory	XXX,XXX	
Increase in interest and income taxes payable	XXX,XXX	
Increase in deferred taxes	XXX,XXX	
Increase in other liabilities	XXX,XXX	
Total adjustments		XXX,XXX
Net cash provided by operating activities		<u>\$ XXX,XXX</u>
Non-cash financing activities:		
Equipment capital leases	XXX,XXX	
Conversion of preferred stock to common stock	XXX,XXX	

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**Exhibit 9**  
**Statement of Cash Flows—Indirect Method**

**ABC COMPANY**  
**Statement of Cash Flows**

**For the Year Ended December 31, 20\_\_**

Cash flows from operating activities:		
Net income		\$ XXX,XXX
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ XXX,XXX	
Provision for losses on trade accounts receivable	XXX,XXX	
Gain on sale of plant and equipment	(XXX,XXX)	
Undistributed earnings of investee	(XXX,XXX)	
Payment received on note receivable	XXX,XXX	
Increase in interest and income taxes payable	XXX,XXX	
Increase in deferred taxes	XXX,XXX	
Increase in other liabilities	XXX,XXX	
Total adjustments		<u>XXX,XXX</u>
Net cash provided by operating activities		<u>XXX,XXX</u>
Cash flows from investing activities:		
Proceeds from sale of plant and equipment	XXX,XXX	
Payment received on note receivable	XXX,XXX	
Capital expenditures	(XXX,XXX)	
Net cash used in investing activities		<u>(XXX,XXX)</u>
Cash flows from financing activities:		
Net borrowings under loan agreements	XXX,XXX	
Principal payments under capital lease obligation	(XXX,XXX)	
Proceeds from issuance of long-term debt	XXX,XXX	
Proceeds from issuance of common stock	XXX,XXX	
Dividends paid	(XXX,XXX)	
Net cash provided by financing activities		<u>XXX,XXX</u>
Net increase in cash and cash equivalents		<u>XXX,XXX</u>
Cash and cash equivalents at beginning of year		<u>XXX,XXX</u>
Cash and cash equivalents at end of year		<u><u>\$ XXX,XXX</u></u>
<b>Supplemental Disclosures:</b>		
Cash paid during the year for:		
Interest (net of amounts capitalized)	\$ XXX,XXX	
Income taxes	XXX,XXX	
Noncash activities:		
Capital lease obligations for equipment	\$ XXX,XXX	
Stock issued for employee stock plans	\$ XXX,XXX	

## FSP Section 6500

### *Illustrative Financial Statements, Notes, and Auditor's Report*

.01 Preparers and auditors of SEC-registrant financial statements are reminded that as discussed in SAB Topic 11M (SAB No. 74), and AU section 9410, Item 3, *The Impact on an Auditor's Report of an FASB Statement Prior to the Statement's Effective Date*, filings with the SEC that include financial statements for a period ending after the issuance of an accounting standard but before the required date of adoption of that accounting standard should include disclosure of the impact that the recently issued accounting standard will have on the financial position and results of operations of the registrant when such standard is adopted in a future period. The following disclosures should be considered by registrants:

- A brief description of the new standard, the date that adoption is required and the date that the registrant plans to adopt, if earlier;
- A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the registrant, if determined;
- A discussion of the impact that adoption of the standard is expected to have on the financial statements of the registrant, unless unknown or not reasonably estimable. In that case, a statement to that effect may be made;

Disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the new standard (such as technical violations of debt covenant agreements, planned or intended changes in business practices, etc.).



.02

**Sample Auditor's Report**Independent Auditor's Report

To the stockholders of  
ABC Company:

We have audited the accompanying consolidated balance sheets of ABC Company as of December 31, 20X2 and 20X1, and the related consolidated statements of income, comprehensive income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America.\* These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABC Company as of December 31, 20X2 and 20X1, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

[Signature]

[Date]

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\* For audits of public companies, Public Company Accounting Oversight Board Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, replaces this sentence with the following sentence: "We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States)."

.03

Sample Financial Statements

ABC COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 20X2 and 20X1

	<u>20X2</u>	<u>20X1</u>
<b>Assets</b> <i>(In thousands)</i>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 663	\$ 590
Marketable debt and equity securities (Note 3)	6,283	4,632
Accounts receivable (Note 4)	24,138	23,211
Inventories (Note 5)	20,152	21,825
Current deferred tax assets (Note 13)	503	449
Other current assets	908	333
Total Current Assets	<u>52,647</u>	<u>51,040</u>
Property, Plant, and Equipment, at cost (Note 6)	11,302	11,683
Deferred Tax Assets (Note 12)	1,009	714
Other Assets (Note 7)	1,264	1,258
Total Assets	<u>\$66,222</u>	<u>\$64,695</u>
<b>Liabilities and Stockholders' Equity</b>		
<i>(In thousands, except share data)</i>		
<b>Current Liabilities:</b>		
Short-term borrowings (Note 8)	\$ 4,875	\$ 6,960
Current maturities of long-term debt (Note 9)	633	399
Accounts payable—trade	9,033	9,888
Accrued payroll and employee benefits	1,341	1,262
Other accrued liabilities	1,552	1,639
Total Current Liabilities	<u>17,434</u>	<u>20,148</u>
Long-Term Debt (Note 9)	12,517	11,189
Other Long-Term Liabilities	675	797
Commitments and Contingent Liabilities (Note 15)		
Total Liabilities	<u>34,626</u>	<u>35,265</u>
<b>Stockholders' Equity</b> (Notes 8 and 10):		
Class A Common stock, issued 5,094,370 shares		
in 20X2 and 5,089,370 shares in 20X1	51	51
Paid-in capital	17,559	17,559
Retained earnings	11,967	10,598
Accumulated other comprehensive income	2,298	1,501
Treasury stock—at cost, Class A Common stock,		
128,000 shares	(279)	(279)
Total Stockholders' Equity	<u>31,596</u>	<u>29,430</u>
Total Liabilities and Stockholders' Equity	<u>\$66,222</u>	<u>\$64,695</u>

See Notes to Consolidated Financial Statements.

.04

**ABC COMPANY AND SUBSIDIARIES**  
**Consolidated Statements of Income**  
**For the Two Years Ended December 31, 20X2**

<i>(In thousands, except per share)</i>	<u>20X2</u>	<u>20X1</u>
<b>Net Sales</b>	<u>\$131,383</u>	<u>\$117,131</u>
Costs of goods sold	117,885	103,333
Selling, general, and administrative expenses	11,223	10,707
Interest expense	1,420	1,033
Other (income) expense	<u>(278)</u>	<u>(138)</u>
Total Costs and Expenses	<u>130,250</u>	<u>114,935</u>
Income Before Income Taxes	1,133	2,196
Income Tax Benefit (Note 12)	<u>(236)</u>	<u>(524)</u>
<b>Net Income</b>	<u>\$ 1,369</u>	<u>\$ 2,720</u>
<b>Earnings Per Common Share</b> (Note 11)	<u><u>\$ 0.XX</u></u>	<u><u>\$ 0.XX</u></u>

See Notes to Consolidated Financial Statements.

.05

**ABC COMPANY AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**For the Two Years Ended December 31, 20X2**

**20X2**

Net income		<u>\$1,369</u>
Other comprehensive income, net of tax		
Unrealized gains on securities		
Unrealized holding gains arising during period (net of income taxes of \$317)	\$967	
Less: reclassification adjustment for gains included in net income (net of income taxes of \$57)	<u>(170)</u>	<u>797</u>
Comprehensive income		<u><u>\$2,166</u></u>

**20X1**

Net income		<u>\$2,720</u>
Other comprehensive income, net of tax		
Unrealized gains on securities		
Unrealized holding gains arising during period (net of income taxes of \$41)	\$164	
Less: reclassification adjustment for gains included in net income (net of income taxes of \$31)	<u>(122)</u>	<u>42</u>
Comprehensive income		<u><u>\$2,762</u></u>

See Notes to Consolidated Financial Statements.

**ABC COMPANY AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the Two Years Ended December 31, 20X2**

<i>(In thousands)</i>	<u>20X2</u>	<u>20X1</u>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$1,369	\$2,720
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Deferred income taxes	(433)	(614)
Depreciation and amortization	1,387	1,466
Gain (loss) on sales of marketable securities	336	(76)
Gain on sale of property, plant, and equipment	(266)	(318)
Change in operating assets and liabilities:		
Accounts receivable	(927)	(5,280)
Inventory	1,440	(2,120)
Other current assets	(575)	25
Other noncurrent assets	(86)	154
Accounts payable—trade	(855)	1,263
Accrued payroll and employee benefits	79	177
Other current liabilities	(87)	(119)
Other liabilities	(123)	(192)
Net Cash Provided (Used) by Operating Activities	<u>1,259</u>	<u>(2,914)</u>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of marketable securities	983	587
Purchases of marketable securities	(1,436)	(491)
Proceeds from sale of property, plant, and equipment	2,983	1,054
Capital expenditures on property, plant, and equipment	(2,037)	(1,400)
Net Cash Provided (Used) by Investing Activities	<u>493</u>	<u>(270)</u>
<b>Cash Flows From Financing Activities:</b>		
(Repayments) proceeds of revolving agreement borrowings	(2,085)	3,710
Repayment of long-term debt	(463)	(543)
Proceeds from issuance of long-term debt	869	
Net Cash Provided (Used) by Financing Activities	<u>(1,679)</u>	<u>3,167</u>
Net Increase (Decrease) in Cash and Cash Equivalents	73	(17)
Cash and Cash Equivalents at Beginning of Year	590	607
Cash and Cash Equivalents at End of Year	<u>\$ 663</u>	<u>\$ 590</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest Paid	\$1,453	\$ 967
Income Taxes Paid	\$ 94	\$ 39

During 20X2 and 20X1, the Company financed certain capital expenditures and related maintenance agreements totaling \$2,040,500 and \$207,500, respectively, through the issuance of capital leases.

See Notes to Consolidated Financial Statements.

.07

**ABC COMPANY AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity**  
**For the Two Years Ended December 31, 20X2**

<i>(In thousands)</i>	<i>Class A Common Stock</i>	<i>Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Treasury Stock</i>	<i>Total</i>
<b>Balance, January 1, 20X1</b>	\$51	\$17,559	\$ 7,878	\$1,459	\$(279)	\$26,668
Net Income			2,720			2,720
Other comprehensive income				42		42
<b>Balance, December 31, 20X1</b>	51	17,559	10,598	1,501	(279)	29,430
Net Income			1,369			1,369
Other comprehensive income				797		797
<b>Balance, December 31, 20X2</b>	<u>\$51</u>	<u>\$17,559</u>	<u>\$11,967</u>	<u>\$2,298</u>	<u>\$(279)</u>	<u>\$31,596</u>

See Notes to Consolidated Financial Statements.

**ABC COMPANY AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note 1: Summary of Significant Accounting Policies**

*Nature of Operations.* ABC Company is engaged in the manufacture, fabrication, and distribution of rail, construction, and tubular products.

The Company's rail business provides a full line of new and used rail, trackwork, and accessories to railroads, mines, and industry. The Company also designs and produces bonded rail joints, power rail, track fasteners, catenary systems, coverboards, and special accessories for mass transit and other rail systems.

The Company's construction business sells and rents steel sheet piling and H-bearing pile for foundation and earth retention requirements and pile driving equipment and accessories for driving piling. In addition, the Company sells bridge decking, expansion joints, sign structures, and other products for highway construction and repair.

The Company's tubular business supplies pipe and pipe coatings for pipelines and utilities. Additionally, the Company manufactures spiralweld pipe for water transmission lines, foundation piling, slurry lines, and many other applications. The Company also produces pipe-related products for special markets, including water wells and irrigation.

The Company markets its products directly in all major industrial areas of the United States through a national sales force.

*Basis of Financial Statement Presentation.* The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and accounts have been eliminated.

*Cash Equivalents.* Holdings of highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

*Inventories.* Inventories are valued at the lower of the last-in, first-out (LIFO) cost or market except for other inventories which are valued at average cost or market, whichever is lower and represented 11% of total inventory in 20X2 and 20X1.

*Property, Plant, and Equipment.* Property, plant, and equipment are recorded at cost less depreciation and amortization. Depreciation and amortization are primarily accounted for on the straight-line method based on estimated useful lives. The amortization of leasehold improvements is based on the shorter of the lease term or the life of the improvement. Betterments and large renewals which extend the life of the asset are capitalized whereas maintenance and repairs and small renewals are expensed as incurred.

*Environmental Remediation.* The Company accrues environmental remediation costs if it is probable that an asset has been impaired or a liability incurred at the financial statement date and the amount can be reasonably estimated. Environmental compliance costs are expensed as incurred. Certain environmental costs are capitalized based on estimates and depreciated over their useful lives.

*Sales.* Revenue is recognized in the financial statements (and the customer billed) either when materials are shipped from stock or when the vendor bills the Company for the order. Net sales are arrived at by deducting discounts, freight, and sales taxes from gross sales.

*Income Taxes.* The Company uses the asset and liability method as identified in SFAS 109, *Accounting for Income Taxes*.

*Estimates.* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Note 2: Related-Party Transactions

The Company has an agreement with DEF Company whereby DEF will provide certain management services to the Company through 2007 in return for an annual fee plus agreed-upon allocated and out-of-pocket expenses. The Company's chairman and chief executive officer is also the chairman and principal shareholder of DEF. The services provided include consultation and direct management assistance with respect to operations, strategic planning, and other aspects of the business of the Company. Fees and expenses paid to DEF for these services under the agreement amounted to \$146 and \$169 for the years ended December 31, 20X2 and 20X1, respectively.

During the years ended December 31, 20X2 and 20X1, the Company paid approximately \$84 and \$76, respectively, in fees to charter an aircraft owned by a company in which the chairman and chief executive officer is the principal shareholder.

A member of the Company's Board of Directors served as a consultant to the Company on various strategic and business issues. Fees paid for such services by the Company during the years ended December 31, 20X2 and 20X1 were \$43 and \$56, respectively.

## Note 3: Marketable Debt and Equity Securities\*

Investments in marketable debt and equity securities at December 31, 20X2 and 20X1, are as follows:

	<u>Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<b>December 31, 20X2:</b>				
Available for sale:				
U. S. Treasury notes	\$4,163	\$ —	\$ —	\$4,163
Corporate debt securities	961	253	58	1,156
Equity securities	302	729	67	964
Total	<u>\$5,426</u>	<u>\$982</u>	<u>\$125</u>	<u>\$6,283</u>
<b>December 31, 20X1:</b>				
Available for sale:				
U.S. Treasury notes	\$2,767	\$ —	\$ —	\$2,767
Corporate debt securities	1,219	64	57	1,226
Equity securities	831	117	309	639
Total	<u>\$4,817</u>	<u>\$181</u>	<u>\$366</u>	<u>\$4,632</u>

U.S. Treasury notes, and the corporate debt securities, mature in 20X3. The change in net unrealized holding gains on securities available for sale in the amount of \$1,042 and \$52 have been charged to other comprehensive income for the years ended December 31, 20X2 and 20X1, respectively. The cost of securities sold is based on the specific identification method.

Proceeds from the sale of available for sale securities during 20X2 and 20X1 were \$\_\_\_\_ and \$\_\_\_\_, respectively. Gross gains of \$\_\_\_\_ and \$\_\_\_\_, and gross losses of \$\_\_\_\_ and \$\_\_\_\_ were realized on sales of available for sale securities during 20X2 and 20X1, respectively.

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\* The following disclosures for investments in marketable debt and equity securities are presented to help practitioners ensure compliance with the disclosure requirements of SFAS 115, as amended, and are not necessarily relevant or properly tailored to the financial statements presented in this section.



Total gains for securities with net gains in accumulated other comprehensive income were \$\_\_\_\_ and \$\_\_\_\_ during 20X2 and 20X1, respectively. Total losses for securities with net losses in accumulated other comprehensive income were \$\_\_\_\_ and \$\_\_\_\_ during 20X2 and 20X1, respectively.

**Note 4: Accounts Receivable**

At 20X2 and 20X1, accounts receivable is comprised of the following:

	<u>20X2</u>	<u>20X1</u>
Trade receivables	\$24,983	\$23,936
Less: Allowance for doubtful accounts	900	808
Plus: other receivables	55	83
Total	<u>\$24,138</u>	<u>\$23,211</u>

Credit is extended to customers only after an evaluation of the customer's financial condition and generally collateral is not required.

**Note 5: Inventories**

At 20X2 and 20X1, inventories are comprised of the following:

	<u>20X2</u>	<u>20X1</u>
Finished goods	\$16,785	\$14,248
Work in process	3,343	7,121
Raw materials	1,330	1,485
Total current cost	21,458	22,854
Less: Reserve for decline to market value	300	300
Reduction of costs to LIFO stated values	1,006	729
Total	<u>\$20,152</u>	<u>\$21,825</u>

**Note 6: Property, Plant, and Equipment**

At 20X2 and 20X1, property, plant, and equipment is comprised of the following:

	<u>20X2</u>	<u>20X1</u>
Land	\$ 3,350	\$ 3,350
Land improvements and leaseholds	1,934	2,546
Buildings	1,282	2,404
Machinery and equipment (including \$3,864 and \$2,057 of equipment under capitalized leases in 20X2 and 20X1, respectively)	11,931	15,712
Rental pile driving equipment	3,126	3,436
Construction in progress	158	111
Total	21,781	27,559
Less:		
Accumulated depreciation	9,647	15,317
Accumulated amortization	832	559
Net property, plant, and equipment	<u>\$11,302</u>	<u>\$11,683</u>

Property, plant, and equipment include certain capitalized leases. The following is a schedule, by year, of the future minimum payments under these leases, together with the present value of the net minimum payments as of December 31, 20X2:

<i>(In thousands)</i>	<u>Amount</u>
Year ending December 31,	
20X3	\$ 859
20X4	832
20X5	783
20X6	588
20X7 and thereafter	747
Total minimum lease payments	<u>3,809</u>
Less amount representing interest	<u>659</u>
Total present value of minimum payments	<u>3,150</u>
Less current portion of such obligations	<u>633</u>
Long-term obligations with interest rates ranging from 6.92% to 11.42%	<u>\$2,517</u>

**Note 7: Other Assets**

At December 31, 20X2 and 20X1, other assets include notes receivable and accrued interest totaling \$948,000 and \$786,500, respectively, from investors in a private corporation. The notes, which are recorded at face value, are due if there is a change in ownership of the private corporation or March 31, 20X7, whichever occurs earlier. Additionally, the Company owns stock in the private corporation which is recorded at historical cost of \$96,500.

**Note 8: Short-Term Borrowings**

Effective November 1, 20X2, the Company renegotiated its \$22,500,000 revolving credit agreement. The interest rate is, at the Company's option, based on the prime rate, the domestic certificate of deposit rate (CD rate) or the Euro-bank rate. The interest rates are adjusted quarterly based on the fixed charge coverage ratio defined in the agreement. The ranges are prime to prime plus 0.25 percent, the CD rate plus 0.45 percent to the CD rate plus 1.125 percent, and the Euro-bank rate plus 0.45 percent to the Euro-bank rate plus 1.125 percent. Borrowings under the agreement, which expires July 1, 20X9, are secured by accounts receivable and inventory.

This agreement includes financial covenants requiring a minimum net worth, a fixed charge coverage ratio, a leverage ratio and a current ratio. The agreement also places restrictions on dividends, investments, capital expenditures, indebtedness, and sales of certain assets. As of December 31, 20X2, the Company was in compliance with all of the agreement's covenants. At December 31, 20X2, the Company had borrowed \$14,875,000 under the agreement of which \$10,000,000 was classified as long-term (see Note 10). Under the agreement, the Company had approximately \$7,061,000 in unused borrowing commitment at December 31, 20X2. At December 31, 20X2, \$12,485,000 was available for future dividend payments.

**Note 9: Long-Term Debt and Related Matters**

Long-term debt at December 31, 20X2 and 20X1, consists of the following:

<i>(In thousands)</i>	<u>20X2</u>	<u>20X1</u>
Revolving Credit Agreement with weighted average interest rate of 6.57% at December 31, 20X2, and 7.33% at December 31, 20X1, expiring July 1, 20X9	\$10,000	\$10,000
Lease obligations payable in installments through 20Y2 with a weighted average interest rate of 8.0% at December 31, 20X2, and 9.45% at December 31, 20X1	<u>3,150</u>	<u>1,588</u>
Subtotal	<u>13,150</u>	<u>11,588</u>
Less current maturities	<u>633</u>	<u>399</u>
Total	<u>\$12,517</u>	<u>\$11,189</u>

The \$10,000,000 revolving credit borrowings included in long-term debt were obtained under the revolving loan agreement discussed in Note 9 and are subject to the same terms and conditions. This portion of the borrowings is classified as long-term because the Company does not anticipate reducing the borrowings below \$10,000,000 during 20X3.

The maturities of long-term debt for each of the succeeding five years subsequent to December 31, 20X2, are as follows: 20X3—\$633,000; 20X4—\$656,000; 20X5—\$661,000; 20X6—\$10,515,000; and 20X7 and beyond—\$1,085,000.

#### Note 10: Stockholders' Equity

At December 31, 20X2 and 20X1, the number of authorized and issued Class A and Class B shares and the related par value and dividends paid are as follows:

	<u>20X2</u>	<u>20X1</u>
Class A common stock, authorized	10,000	10,000
Class B common stock, authorized	696	696
Class A common stock, issued	5,094	5,089
Class B common stock, issued	0	0
Class A common stock, outstanding	4,966	4,961
Class B common stock, outstanding	0	0
Class A common stock, per share par value	\$ 0.01	\$ 0.01
Class B common stock, per share par value	\$ 0.01	\$ 0.01
Cash dividends paid on common stock	0	0

The Class A and B stock are identical except the Class B stock does not have stockholder voting rights and such stockholders are entitled to one vote per share on issues such as consolidation or merger of the Company. Class B is convertible on demand into Class A stock on a share-for-share basis.

#### Note 11: Earnings Per Common Share

Earnings per common share are computed by dividing net income by the average number of Class A Common shares outstanding during the year. The weighted average number of Class A Common shares outstanding during the year ended December 31, 20X2, were approximately \_\_\_\_\_ and approximately \_\_\_\_\_ during the year ended 20X1.

#### Note 12: Income Taxes

At December 31, 20X2, the Company has available net operating loss carryforwards of approximately \$3,900,000 for federal income tax purposes that expire 20XX. The federal carryforwards resulted from losses generated in 20XX. The tax benefit of net operating loss carryforwards available for state income tax purposes was approximately \$400,000 as of December 31, 20X2. The Company also has *alternative* minimum federal tax credit carryforwards at December 31, 20X2, of approximately \$500,000. For financial purposes, a valuation allowance of \$100,000 has been recognized to offset the deferred tax assets related to the state income carryforwards. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 20X2 and 20X1, are as follows:

<i>(In thousands)</i>	<u>20X2</u>	<u>20X1</u>
Deferred tax liabilities:		
Depreciation	\$ 614	\$ 301
Other—net	<u>(31)</u>	<u>34</u>
Total deferred tax liabilities	<u>583</u>	<u>335</u>
Deferred tax assets:		
Net operating loss carryforwards	1,709	2,248
Tax credit carryforwards	486	443
Other—net	<u>        </u>	<u>157</u>
Total deferred tax assets	<u>2,195</u>	<u>2,848</u>
Valuation allowance for deferred tax assets	<u>100</u>	<u>1,350</u>
Deferred tax assets	<u>2,095</u>	<u>1,497</u>
Net deferred tax assets	<u>\$1,512</u>	<u>\$1,163</u>

The valuation allowance for deferred tax assets was reduced by \$1,249,550 and \$1,187,000 during 20X2 and 20X1, respectively.

Significant components of the provision for income taxes are as follows:

<i>(In thousands)</i>	<u>20X2</u>	<u>20X1</u>
Current:		
Federal	\$ 51	\$ 41
State	<u>63</u>	<u>49</u>
Total current	<u>114</u>	<u>90</u>
Deferred:		
Federal	(170)	(591)
State	<u>(180)</u>	<u>(23)</u>
Total deferred	<u>(350)</u>	<u>(614)</u>
Total income tax benefit	<u>\$(236)</u>	<u>\$(524)</u>

The reconciliation of income tax computed at statutory rates of income tax benefit is as follows:

	<u>20X2</u>	<u>20X1</u>
Statutory rate	34.0%	34.0%
State income tax	(3.0)	0.7
Nondeductible expenses	3.0	3.1
Net operating loss	(22.9)	(28.6)
Change in valuation reserve	(30.2)	(25.5)
Prior period tax	13.2	(11.5)
Other	<u>(1.3)</u>	<u>3.9</u>
	<u>(7.2)%</u>	<u>(23.9)%</u>

### Note 13: Rental and Lease Information

The Company leases certain plant facilities, office facilities, and equipment. Rental expense for the years ended December 31, 20X2 and 20X1, amounted to \$933,500 and \$846,500, respectively.

At December 31, 20X2, the Company is committed to total minimal rental payments under all noncancellable operating leases of \$708,500. Generally, these leases include escalation clauses.

The minimum future rental commitments are payable as follows: 20X3—\$431,500; 20X4—\$188,500; 20X5—\$43,500; 20X6—\$35,000; and 20X7—\$10,000.

**Note 14: Pension and Other Postretirement Benefit Plans**

The company has a defined benefit pension plan covering substantially all of its employees. The plan benefits are based on years of service and the employees' compensation during the last five years of covered employment. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit cost for both the pension plan and the other postretirement benefit plans:

	<i>Pension Benefits</i>		<i>Other Benefits</i>	
	<u>20X2</u>	<u>20X1</u>	<u>20X2</u>	<u>20X1</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$126	\$120	\$ 73	\$ 61
Service cost	6	7	6	3
Interest cost	14	10	5	3
Plan participants' contributions			20	13
Actuarial gain	(25)		(24)	
Benefits paid	(12)	(11)	(9)	(7)
Benefit obligation at end of year	<u>109</u>	<u>126</u>	<u>71</u>	<u>73</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	106	88	53	8
Actual return on plan assets	29	18	(3)	24
Employer contribution	75	11	17	15
Plan participants' contributions			20	13
Benefits paid	(12)	(11)	(9)	(7)
Fair value of plan assets at end of year	<u>198</u>	<u>106</u>	<u>78</u>	<u>53</u>
Funded status:	(27)	(19)	(10)	(53)
Unrecognized net actuarial loss	83	38	15	60
Unrecognized prior service cost	26	16	5	54
Prepaid (accrued) benefit cost	<u>\$ 82</u>	<u>\$ 35</u>	<u>\$(10)</u>	<u>\$ 61</u>
	<i>Pension Benefits</i>		<i>Other Benefits</i>	
	<u>20X2</u>	<u>20X1</u>	<u>20X2</u>	<u>20X1</u>
Weighted-average assumptions as of December 31:				
Discount rate	7.00%	7.00%	7.00%	7.00%
Expected return on plan assets	8.00	8.00	6.60	6.60
Rate of compensation increase	6.00	6.00		

For measurement purposes, a 7 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 5 percent over the next five years.

	<i>Pension Benefits</i>		<i>Other Benefits</i>	
	<u>20X2</u>	<u>20X1</u>	<u>20X2</u>	<u>20X1</u>
Components of net periodic benefit cost:				
Service cost	\$ 6	\$ 7	\$ 6	\$ 3
Interest cost	14	10	5	3
Expected return on plan assets	(10)	(18)	(24)	(9)
Amortization of prior service cost	2	2	6	6
Recognized net actuarial loss	6	6	1	4
Net periodic benefit cost	<u>\$ 18</u>	<u>\$ 25</u>	<u>\$ 11</u>	<u>\$ 7</u>

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost components	\$4	\$(3)
Effect on postretirement benefit obligation	2	(1)

#### **Note 15: Commitments and Contingent Liabilities**

The Company is subject to laws and regulations relating to the protection of the environment. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts, in the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial condition, competitive position or capital expenditures of the Company. However, the Company's efforts to comply with increasingly stringent environmental regulations may have an adverse effect on the Company's future earnings.

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

At December 31, 20X2, the Company had outstanding letters of credit of approximately \$564,000.

#### **Note 16: Risks and Uncertainties**

The Company's future operating results may be affected by a number of factors. The Company is dependent upon a number of major suppliers. If a critical supplier had operational problems or ceased making material available to the Company, operations could be adversely affected. In particular, approximately 70% of the materials sold by the construction products segment are purchased from one supplier. The Company's operations are in part dependent on governmental funding of infrastructure projects. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on the operating results of the Company. The Company's operations results may also be affected by the weather.

#### **Note 17: Fair Values of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of financial instruments:

*Cash and Cash Equivalents.* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

*Accounts Receivable and Accounts Payable.* The carrying amount of accounts receivable and accounts payable in the balance sheet approximates fair value.

*Short-Term and Long-Term Debt.* The carrying amount of the revolving credit facility approximates fair value.

The carrying amounts of the Company's financial instruments at December 31, 20X2, approximate fair value.

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